

Quarterly Progress Report Third Quarter 2000

The Egypt Capital Markets Development Project

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ACRONYMS

AIMR	Association for Investment Management and Research
ANNA	Association of National Numbering Agencies
AUC	American University in Cairo
CASE	Cairo and Alexandria Stock Exchanges
CACE	Center for Adult and Continuing Education (division of AUC)
CBE	Central Bank of Egypt
CMA	Capital Market Authority
CMD	Capital Markets Development project
CML	Capital Market Law
COP	Chief of Party
DT2	Development Training Two project
EAS	Egyptian Accounting Standards
EU	European Union
ECMA	Egyptian Capital Market Association
EDGAR	Electronic Data Gathering and Retrieval System (U.S.)
EFA	EFA Software, Ltd.
EIMA	Egyptian Investment Management Association
G-30	Group of Thirty on Clearing and Settlement
GDR	Global Depository Receipt
GOE	Government of Egypt
IAS	International Accounting Standards
IOSCO	International Organization of Securities Commissions
IPF	Investor protection fund
IPO	Initial public offering
ISA	International Standards on Auditing
ISIN	International Securities Information Numbering
IT	Information technology
MOEFT	Ministry of Economy and Foreign Trade
MOF	Ministry of Finance
MCSD	Misr for Clearing, Settlement, and Depository
NASD	National Association of Securities Dealers Inc. (U.S.)
NYSE	New York Stock Exchange
QPR	Quarterly progress report
OTC	Over-the-counter market
RFP	Request for proposals
RFQ	Request for quotations
SEC	Securities and Exchange Commission (U.S.)
SGF	Settlement guarantee fund
SOW	Scope of work
S&P	Standard & Poor's
SRO	Self-regulatory organization
UAS	Unified Accounting Standards
USAID	United States Agency for International Development
VNR	Video news release

EXECUTIVE SUMMARY: THIRD QUARTER 2000

This quarterly progress report (QPR) summarizes the activities of the Egypt Capital Markets Development (CMD) project during the third quarter of 2000. Following the introduction, it discusses CMD's activities with its eight institutional partners—the Capital Market Authority (CMA), Cairo and Alexandria Stock Exchanges (CASE), Misr for Clearing, Settlement, and Depository (MCSD), the Central Bank of Egypt (CBE), the Ministry of Finance (MOF), the Ministry of Economy and Foreign Trade (MOEFT), and the securities industry, represented by the Egyptian Capital Market Association (ECMA) and the Egyptian Investment Management Association (EIMA). A ninth section addresses monitoring and evaluation, and the appendices present a summary of training activities, a list of the reports delivered over the life of the project, summaries of the reports produced during the third quarter, and an update on our procurement activities.

Like 1999, the activities and tasks in the Year-2000 Work Plan were developed in close coordination with our institutional partners and are designed to achieve significant outcomes over the course of the year and beyond. The work plan provides the guiding framework for all of these activities, but the project has found it necessary, as situations developed and other projects conducted their activities, to adapt plans and move ahead on different activities or with different methods to achieve the outcomes on which it agreed with its institutional partners and USAID.

Capital Market Authority (CMA)

CMD continued its wide-ranging assistance program to the CMA during the quarter, focusing on new rules and regulations, upgrading the CMA's network security, and completing level two of the process model. We delivered new draft regulations covering price manipulation, insider trading, and selective disclosure, as well as new rules for the registration of custodians and depository banks. We also drafted a report recommending the structure and main elements of an Egyptian fund to protect customers of insolvent or bankrupt brokers (an investor protection fund), and drafted a prime ministerial decree for the creation of the fund. Both the report and decree will be finalized and delivered early in the fourth quarter. As part of our institutional development efforts, we completed Level II of the Process Model, a detailed diagram of information flow for the CMA's key functions, and started a comprehensive examination of market surveillance and enforcement. To protect the CMA's computer systems, CMD completed the procurement and installation of a firewall security system during the quarter.

Throughout the quarter, we continued an extensive training program, including workshops on bond trading to prepare the CMA staff for the introduction of dealer-based trading in government securities and corporate bonds. In total, we conducted 180 person-hours of specialized workshops and facilitated attendance by CMA staff members at 800 person-hours of training provided through the USAID-funded Development and Training Two (DT2) project. Ten staff members are currently attending English-language training conducted by the USAID-funded Center for Adult and Continuing Education, a division of the American University in Cairo (AUC-CACE).

Cairo and Alexandria Stock Exchanges (CASE)

CMD delivered drafts of new membership and board of directors rules to CASE, and started drafting new listing rules. The board of directors rules will provide the basis of articles of incorporation if and when CASE develops into an SRO. They will also provide the overall framework for the development of other sets of rules, including the definitions common to each. In addition, CMD initiated a comprehensive examination of market surveillance and enforcement in the Egyptian market, including an examination of surveillance capabilities at CASE. We will deliver the evaluation and corresponding recommendations for improvement during the fourth quarter.

The project completed the initial version of a two-segment pilot for the educational video series. The segments introduce the market and the series and provide an overview of investing in stock. They are being finalized for delivery in the fourth quarter. For CASE, CMD provided 400 person-hours of training through the DT2 project, and eight staff members are currently attending English-language training at AUC-CACE.

Misr for Clearing, Settlement, and Depository (MCSD)

The Central Securities Depository and Registry Law (Law 93/2000), which CMD helped its institutional partners finalize, was passed by the People's Assembly in May. It took effect on July 1. To complement the law, CMD delivered revised drafts of its executive regulations in Arabic and English to MCSD and the MOEFT during the third quarter. The regulations cover licensing procedures and requirements, the self-regulatory framework, and conditions and standards for MCSD's depository, clearing, settlement, and registry services. Moving forward on our institutional development efforts, we evaluated and recommended improvements to MCSD's internal audit procedures, and finalized a budgeting manual.

With MCSD and market participants, we identified several issues related to the creation of a securities lending and borrowing service, allowing MCSD's programmers to move forward with system development. We also improved the safety of MCSD's computer networks by completing the installation of a firewall security system. In addition, we received and evaluated proposals for a network management system, our last major procurement on behalf of MCSD. CMD conducted 240 person-hours of specialized workshops for MCSD during the quarter, and sponsored 720 person-hours of training through DT2. Ten members of the MCSD staff are currently attending English-language training at AUC-CACE.

Securities Industry

The project printed and distributed more than 10,000 copies of the "Guide to Reading Financial Statements," which was received enthusiastically by Egyptian government agencies and the securities industry. The guide, which was published in Arabic, covers reading and understanding balance sheets, auditors' reports, and statements of income, retained earnings, and cash flows, as well as analyzing financial statements and prospectuses. CMD also completed drafts of four brochures designed to provide current and future investors with basic information on the capital market and investing in securities. During the third quarter, we strengthened our team by assigning Chief Administrative Officer Renato (Jun) Labadan to the position of securities industry advisor. He assumed his responsibilities in late August.

Central Bank of Egypt (CBE)

CMD focused its assistance to the CBE on the development of the book-entry registry for government securities and the introduction of new financial instruments during the quarter. To facilitate the introduction of new financial instruments, CMD's advisors presented new financing options to market participants, including local banks, and to the CBE staff. These possible new instruments include negotiable certificates of deposit (CDs), bond repurchase transactions, commercial paper, and cash management bills. As active participants in the joint taskforce for the development of book-entry registry, we continued to train CBE staff in the trading principles underlying the development of the system and in database development techniques.

CMD also presented a streamlined action plan for the introduction of primary dealers of government securities to the CBE Governor and sub-governor. The action plan outlines the steps, including the implementation of scheduled auctions for government securities, that are necessary to successfully introduce primary dealers. At the suggestion of the CBE, CMD is currently working with the MOF on the implementation of these steps (see below). For the CBE, the project conducted a total of 70 person-hours of specialized workshops. Eight CBE staff members are currently attending English-language training at AUC-CACE.

Ministry of Finance (MOF)

In addition to the CBE, CMD delivered the streamlined action plan for the creation of primary dealers to the Minister of Finance. The Minister accepted CMD's action plan and publicly announced that, as the issuer of Egypt's government debt, the MOF would create primary dealers and conduct market-based auctions for government securities. As currently planned, candidates will be asked to apply for primary dealer status starting in December. The formal selection of primary dealers will occur in the first quarter of 2001. We expect that the primary dealer system will be fully established during 2001. With the concurrence of USAID, we also recruited an advisor to establish a debt management unit within the ministry, and trained the new employee to effectively undertake her responsibilities.

In response to a request from the Minister of Finance and CMA Chairman during the quarter, CMD started assisting the MOF with preparations for an upcoming \$500-million sovereign bond issue on international markets. Proposals to underwrite the bond issue are due in early November.

Ministry of Economy and Foreign Trade (MOEFT)

CMD continued to work with the MOEFT's legal staff on the development of new rules and regulations. As noted above, we delivered the full set of draft executive regulations to accompany the new Central Securities Depository and Registry Law (Law 93/2000). CMD also proposed additional enhancements to help ensure the sustainability of the MOEFT's new website. These enhancements will be initiated in the fourth quarter.

Monitoring and Evaluation

The project is monitoring its progress along three dimensions: in terms of the work plan, intermediate results, and long-range outcomes. Defined by USAID, the last two factors are designed to monitor progress over the life of the project's technical assistance program. The intermediate results were exceeded in 1999. Market size and activity, which the intermediate results measure, continued to expand in the third quarter of 2000. Year-to-date figures were up significantly in the intermediate result areas over the same period in 1999. With CMD assistance, the Egyptian market also moved closer to major achievements in each of the long-range-outcome areas, in particular the capital market's legal structure, the trading capacity of the exchange, and the training of market regulators and participants.

Issues and Challenges

CMD continues its efforts to overcome two challenges encountered earlier in the year. First, receipt of a draft copy of the new Capital Market Law is required to move ahead on SRO assistance, as the law is expected to specify the requirements for such organizations in the Egyptian market. The project is in close contact with the MOE and CMA on this issue. Second, the Arabization of the user documentation for the new trading software is temporarily on hold pending CASE's approval of glossaries of terms and the first two Arabized manuals. Both the manuals and glossaries were delivered to CASE in the first and second quarters. The glossaries are necessary to ensure that the Arabization of the manuals conforms to the translation and adaptation of the software, which is being undertaken by CASE and its software developer.

SECTION I

Introduction

This quarterly progress report (QPR) summarizes the Egypt Capital Markets Development (CMD) project's activities and achievements during the third quarter of 2000. It is divided into eight sections. The first section introduces the report and provides a list of the short-term advisors engaged during the reporting period. Sections II through VIII provide a narrative discussion of the project's current, ongoing, and planned work with each of our partner institutions, as well as highlight boxes with additional information on the quarter's most notable activities. The final section of the QPR summarizes and evaluates progress to date along three dimensions: the outcomes listed in the Year-2000 Work Plan, intermediate results, and long-range outcomes (with the last two defined by USAID in terms of the life of the project).

A. Personnel and Organizational Changes

During the third quarter, CMD's Chief Administrative Officer Jun Labadan was appointed as the project's long-term securities industry advisor.

B. Short-Term Advisors Engaged During the Quarter

CMD engaged a total of eight expatriate and five local short-term advisors during the quarter (see Tables 1 and 2). The input we receive from our highly qualified short-term advisors, both local and expatriate, provides us with specialized skills and adds depth to our long-term teams.

Table 1
Expatriate Short-Term Advisors Engaged
Third Quarter 2000

Name/Subcontractor	Primary Area of Assistance	Dates of Engagement
Lawrence Wells (Edelman Communications International)	Media Advisor (CMA & CASE)	July 7 to July 19
Bill Moore (Edelman Communications International)	Media Advisor (CMA & CASE)	July 7 to July 16
Charles Rubin (Chemonics International Inc.)	Securities Lending and Borrowing Advisor (MCSD)	July 28 to August 11 September 26 to October 6
Doug Frank (Chemonics International Inc.)	Data Communications Security Specialist (CMA & MCSD)	August 5 to August 20
Brian Riddell (Chemonics International Inc.)	Exchange Advisor (CASE)	August 11 to October 6
Marla Viorst (Hill & Knowlton)	Demand Study Advisor (CMA)	September 5 to September 19
Moll Bayley (Chemonics International Inc.)	Surveillance Advisor (CMA)	September 9 to September 22
Casey Wolfe (Edelman Communications International)	Internet Developer (CMA & MOEFT)	September 24 to October 10

Table 2
Local Short-Term Advisors Engaged
Third Quarter 2000

Name/Subcontractor	Primary Area of Assistance	Dates of Engagement*
Mohamed Abdel Salam (Zarrouk, Khaled, & Co.)	Budgeting Manual (MCSD)	Jan. 3 and ongoing (intermittent)
Amr Fouad (Zarrouk, Khaled, & Co.)	Budgeting Manual (MCSD) Disclosure Requirements (CMA)	Jan. 3 and ongoing (intermittent)
Mona Samir (Arabsoft)	Analyst/Programmer (ECMA)	Jan. 3 and ongoing (intermittent)
Hisham El Masry (Arabsoft)	Hardware Procurement (CASE)	Jan. 11 and ongoing
Amar Thakeb (Chemonics International)	Layout and Graphic Design, Educational Brochures (ECMA)	Mar. 13 and ongoing (intermittent)

* The dates only reflect time worked during 2000. They do not reflect time worked during CMD's first year of operation. "Ongoing" indicates that the assignment will be completed after the end of the reporting period.

SECTION II

Capital Market Authority

CMD focused on legal and regulatory initiatives during the third quarter, including drafting new rules and regulations covering net capital requirements, margin lending, registration of custodians and depository banks, and the establishment of an investor protection fund (IPF). With the help of short-term advisors, we also initiated new surveillance and enforcement efforts and completed recommendations on public awareness and outreach methods for increasing the demand for Egyptian securities.

Throughout the quarter, CMD continued to maintain and build on its good working relationship with CMA Chairman H.E. Abdel Hamid Ibrahim, Deputy Chairman Ashraf Shamseldin, and the entire CMA management and staff.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

1. Institutional Development and Training

1.1 Corporate Planning and Organizational Development

Completing the CMA Process Model— Level Two

CMD completed the second level of the CMA process model during the third quarter. After editing and layout, the document will be delivered to the CMA. The second level of the model covers the CMA's key functions, in particular the Market Operations Sector. It is a detailed examination of information and work flows within and between these departments.

Major Achievements: Third Quarter 2000

- Delivered requirements report for an electronic system for filing and retrieving corporate information.
- Examined current market surveillance and enforcement capabilities in the Egyptian market, and commenced drafting recommendations for improvement.
- Drafted report recommending the basic elements of an investor protection fund in Egypt, including information on similar funds in other markets.
- Drafted rules mandating net capital requirements for broker/dealers and regulating margin lending.
- Delivered draft rules covering price manipulation, insider trading, and selective disclosure.
- Delivered draft rules for the registration of custodians and depository banks.
- MOEFT issued decree covering credit rating and rating agencies, based on CMD's draft regulation.
- The study group led by CMA Board Member and Cairo University Professor Dr. Hanaa Khier El-Din completed the final draft of the Market Demand Study.
- Delivered recommendations on public awareness and outreach methods for increasing the demand for Egyptian securities. The report will accompany and complement the Market Demand Study.
- Completed Level 2 of the Process Model for the CMA's key functions.
- Drafted requirements report for bond-tracking system.
- CMA started implementation of ISIN system for Egyptian securities, based on a CMD proposal.
- Conducted 180 person-hours of specialized workshops and on-the-job training, and facilitated attendance by CMA staff members at 800 person-hours of DT2-funded training. Ten CMA staff members are currently attending English-language training conducted by AUC-CACE.

The process model will allow us to jointly develop additional automation strategies and plan for their implementation. It will also help the CMA identify blockages and areas where information flow can be improved. It has already been useful in specifying the requirements for the bond-tracking system and will be used in CMD's examination of current market surveillance capabilities at the CMA (see below and Section 1.2). Level 2 of the model will be delivered in the fourth quarter.

Automating the Bond Issuance and After-Issuance Processes

CMD completed a draft requirements report for an electronic system to track the bond issuance and post-issuance process. The draft report relies heavily on the process model's description of the CMA's current procedures for bond issues. After an internal review of the process model and requirements report, we determined that further discussion with the CMA management was warranted to determine how these procedures might be modified to bring them in line with the role of pure market regulator. We will also recommend ways in which these procedures can be streamlined to increased efficiency.

After the requirements report is approved by the CMA management, CMD will continue to assist the CMA with all phases of the development of this tracking system. The bond tracking system will eventually be incorporated into the electronic system for filing and retrieving corporate information (see Section 2.1).

Implementing the ISIN System

The CMA began introducing the International Securities Identification and Numbering (ISIN) system based on CMD's 1999 proposal. By the end of the quarter, the CMA had completed coding all existing securities using the numbering system, and CASE was preparing to verify that the numbers were completed, accurate, and unique. CMD expects that the ISIN system will be fully implemented in early 2001.

1.2 Improving Market Surveillance, Compliance, and Broker Registration and Testing

Improving Market Surveillance and Enforcement

CMD and two short-term advisors conducted a comprehensive examination of current market surveillance and enforcement capabilities in the Egyptian market. Short-term advisor Molly Bayley is leading the surveillance efforts. She is being assisted by short-term advisor Brian Riddell, who is also working with CASE on the development of new rules and other tasks (see Section III, 3.1). During a September visit, Ms. Bayley conducted extensive interviews and research at the CMA and CASE. She also examined CMD's previous efforts to help its institutional partners improve market surveillance and enforcement. Ms. Bayley will deliver her draft report in October (see Box 1 for a summary of Ms. Bayley's initial findings). After incorporating comments received from the project, she will present her final report to the CMA Chairman and his senior staff during a November field visit.

During his field visit, Mr. Riddell also worked closely with the CMA and CASE surveillance departments. In one of the achievements of the quarter, Mr. Riddell facilitated the first face-to-face meeting between the CASE and CMA surveillance department heads. The meeting generated a commitment from the two departments to establish regular contact and coordination.

Remodeling the CMA's Surveillance Workspace

CMD awarded a contract for the remodeling of the CMA's surveillance workspace. The work will be completed during the fourth quarter. The remodeling will provide a functional working area for the department, as well as infrastructure to effectively accommodate its computer equipment.

Box 1

Preliminary Recommendations on Market Surveillance and Enforcement

Short-term advisor Molly Bayley's evaluation yielded a number of important preliminary findings and recommendations about market surveillance and enforcement, including the following:

- CASE should conduct online surveillance, and the CMA should concentrate on offline/investigative work.
- The stock-watch system currently at CASE, once it is fully implemented, will be sufficient to provide effective online surveillance capabilities.
- Both CASE and the CMA should develop written surveillance procedures.
- Additional training is needed for the CMA and CASE surveillance analysts in conducting reviews and investigations, as well as in recognizing fraudulent activities.

Ms. Bayley's final report will include concrete recommendations and implementation plans for improvements in each of these areas.

1.3 Facilitating the Introduction of New Financial Instruments

To help increase the number of bond dealers and improve the bond market in general, CMD continued to work closely with potential dealers to encourage them to apply for licenses and enter the market. As of the end of the third quarter, there were two approved bond dealers. We also continued to train the CMA staff in bond trading and bond markets to prepare them to assume new regulatory responsibilities (see Section 1.4).

Activities related to the government securities market are being conducted with the CBE and MOF, focusing on the creation of primary dealers and the establishment of market-based auctions (see Section IV, 1.2).

1.4 Increasing the Functional Capacity and Abilities of the CMA Staff

CMD continued its training activities for the CMA's professional staff. The activities include on-the-job training and specialized workshops using the resources of our long-term team and short-term advisors.

Specialized Workshops and Seminars

The following specialized workshop series was conducted for the CMA staff during the quarter:

- CMD long-term money and bond markets advisor John Noonan conducted a series of six workshops on the bond market and bond trading for the CMA staff. These workshops covered a wide range of topics, including bond pricing, the impact of tax policy on bond

issues, portfolios in the bond market, the yield curve, secondary trading in bonds, and the benefits of dealer market-making. The workshops prepared the CMA staff to assume new regulatory responsibilities as dealer-based bond trading is introduced.

On-the-job Training and Specialized Technical Assistance

CMD continued to offer on-the-job training to the CMA's staff. Specialized assistance to the corporate finance and other departments included the following:

- Delivered memorandum commenting on the valuation prepared for a major share offering to assist the CMA with its evaluation process.
- Advised the corporate finance staff on how to examine the assumptions underlying projected returns and valuations for two major local offerings.

DT2-sponsored Training Programs and CACE English-Language Training

CMD continued to sponsor attendance by CMA staff members at DT2-funded training programs. These programs were developed in close cooperation with the CMA's senior management and have been selected to increase the CMA staff's functional capacity and abilities in a wide range of areas. The training programs conducted in the second quarter are summarized in Appendix B.

1.5 Additional Institutional Development and Training Activities

The study group led by Dr. Hanaa Khier El-Din completed the Market Demand Study. After a review by the CMA Chairman and discussion by the steering committee, the study was finalized. CMD will layout and print the study during the fourth quarter.

To accompany and complement the Market Demand Study, CMD and short-term advisor Marla Viorst (Hill & Knowlton) delivered recommendations on public awareness and outreach methods to increase demand in the Egyptian market. The recommendations focused on the growing role of the securities industry in promoting the Egyptian market and educating current and potential investors. It also includes

Box 2

Methods of Increasing Public Awareness of Investing

In this report, CMD recommends public outreach and relations steps that the Egyptian securities industry and capital market institutions can take to increase demand in the capital market. The report recommends that, with the support of government agencies and ministries, the securities industry focus on three main strategies:

- Bolster confidence in the capital markets through proactive media, customer, and industry education efforts.
- Underscore the long-term benefits of investing in the capital markets in all communications materials, including speeches and other presentations.
- Help increase investor interest in the securities market with effective communications tools and information dissemination.

The core elements of the proposed public awareness and outreach plan include:

- Materials audit and message refinement
- Television and radio programming and Internet opportunities
- Education, training, and awareness-building initiatives
- Trade and consumer media relations

Each of these elements should be tailored to specific target audiences, including individuals, local and international institutions, and key secondary audiences, such as students and educators. The report outlines specific activities under each public awareness and outreach element and identifies the parties that should be responsible for implementation.

recommendations for increasing demand among local and international institutional investors (see Box 2).

2. Information Technology Assistance

2.1 Developing an Electronic Database for Filing and Retrieving Corporate Information

CMD delivered the requirements report for an electronic system for filing and retrieving corporate information to the CMA. The report was prepared with the assistance of short-term advisor Sylvia Ries, former U.S. Securities and Exchange Commission (SEC) assistant director for Electronic Data Gathering, Analysis, and Review (EDGAR) policy.

The report outlines the purpose and goals of an electronic system for filing and retrieving corporate information and then recommends *what* the system should do. The proposed system will include the following features:

- It will automate the filing submission process and some data entry tasks, reducing the chances of errors and making these documents easily available to the CMA staff and the general public.
- It will allow the public to easily download issuer filings via the Internet or, possibly, via investor information centers.
- It will help the CMD monitor compliance with reporting requirements by determining which companies have and have not filed required documents.
- It will assist with the review process by storing staff notes and working papers for easy electronic retrieval.
- It will eventually include search features to allow CMA analysts to easily find required information during their review process, as well as when conducting sector and market research.

After the CMA approves the requirements report, CMD will begin drafting a “Functional Design Report.” This report will describe in detail the system’s functions and the look of its user interface screens and printouts.

2.2 Improving the Functioning and Security of Electronic Systems

The CMA firewall security system was installed and is operational. CMD provided both the software and the hardware for the firewall, as well as training and installation through the vendor. During the fourth quarter, testing of the firewall security system will be completed. The project will also identify and start providing additional training to allow the CMA staff to effectively maintain and support the system. The additional training will most likely be provided through the USAID-funded DT2 project.

2.3 Developing a Computerized Archiving System for CMA Documents

The specifications for the system will be finalized in conjunction with discussions about the electronic system for filing and retrieving corporate information (see Section 2.1).

3. Legal and Regulatory Assistance

3.1 Improving the Legal and Regulatory Structure

Net Capital and Margin Lending Rules

CMD and U.S.-based legal subcontractor Winston & Strawn drafted new CMA rules covering net capital requirements for broker/dealers and margin lending. Both rules will be delivered in the fourth quarter. For each, we have prepared executive summaries in Arabic and English for discussion with the CMA Chairman and his senior staff. The rules will be incorporated into the executive regulations of the new Central Securities Depository and Registry Law (Law 93/2000).

- *Net Capital Rules.* The current Capital Market Law (CML) does not contain any provisions regulating net capital requirements. Such requirements are designed to ensure that brokers maintain adequate and liquid financial resources to meet current obligations in their day-to-day activities. Article 20 of the new Central Securities Depository and Registry Law, which was recently passed by the People's Assembly, requires depository participants to comply with the membership rules and standards specified by regulations and to maintain, at all times, sufficient financial resources to meet their obligations and cover securities clearing and settlement risks.

CMD's draft rules identify three categories of broker/dealers, and specify corresponding net capital requirements for each:

- Category (A): brokers only allowed to execute customers' trades—no lending, no clearing and settlement, and no management of customers' trades ("executing brokers");
- Category (B): brokers allowed to execute trades for customers, clear and settle, and manage customers' records, but not conduct any margin lending ("clearing brokers");
- Category (C): brokers allowed to execute customers' trades, lend cash (for margin lending), clear and settle, and manage customers' records ("lending brokers").

The rules also propose methods of calculating net capital, as well as liabilities, customer debits, and net worth.

- *Margin Lending Rules.* Customers purchasing securities pay for them in full or they can borrow a portion of the purchase price from a broker/dealer. The amount borrowed from the brokerage firm represents the customer's debit balance. The minimum amount the customer is required to deposit is known as margin. Purchasing securities on margin allows investors to leverage their investments. Leverage involves the ability to increase return without increasing investment, but exposes the customer to a greater loss if market value declines. Should a customer not be capable of covering such a loss, the broker is at risk of using its own funds to complete a settlement.

As with net capital requirements, the Capital Market Law does not contain provisions regulating margin lending, despite the fact that such an activity currently exists in the Egyptian market. CMD's draft rules for margin lending specify the types of margin

accounts that securities brokerage companies can establish for their customers and the credit that can be extended based on the amount of cash and securities that customers maintain in these accounts. The rules also specify the actions that can be taken if customers' margin accounts fall below minimum levels, and the information securities brokerage companies must report periodically to the market regulator and their customers.

Regulations on Insider Trading, Price Manipulation, and Selective Disclosure

CMD delivered draft regulations covering insider trading, price manipulation, and selective disclosure. These regulations are directly related to the improvement of surveillance and enforcement in the Egyptian market (see Section 1.1).

Rules and Procedures for Custodians and Depositary Banks

CMD drafted and delivered rules and procedures under Articles 6 and 9 of the new Central Securities Depository and Registry Law (Law 93/2000). The rules and procedures address the registration of banks serving as custodians and issuers of depositary receipts.

Financial Disclosure

CMD has experienced delays in receiving short-term advisor's Dr. Anthony Sondhi's report evaluating and recommending improvements to financial disclosure requirements and practices in Egypt. We hope to receive the report, which was originally due in June, during the fourth quarter.

3.2 Establishing an Investor Protection Fund

CMD and its U.S.-based legal subcontractor Winston & Strawn drafted a report on the proposed elements of an investor protection fund (IPF) in Egypt. For the purpose of comparison, the report is accompanied by appendices summarizing the main features of the U.S. Securities Investor Protection Corporation (SIPC), the U.K. Investors Compensation Scheme (ICS), and the Canadian Investor Protection Fund (IPF). A ministerial decree for the creation of the fund was also drafted. Both documents will be finalized and delivered during the fourth quarter. We will also deliver a full set of draft regulations to support the decree.

In the report, CMD proposes that the fund, to be established by a decree of the Prime Minister, should be a separate entity regulated by the CMA. The IPF will insure securities investors in Egypt against loss of cash and securities caused by the insolvency or bankruptcy of a securities intermediation company. The report recommends the fund's basic elements in the following areas:

- Organization and administration, including its board of directors
- Regulatory and enforcement powers
- Regulatory oversight
- Protection afforded to customers of insolvent or bankrupt securities intermediaries
- Methods of paying customers of insolvent or bankrupt securities intermediaries
- Sources of funding

CMD will discuss the fund's basic elements, as well as the decree and regulations, with the CMA Chairman and his senior staff during the fourth quarter. After CMA approval is received, the documents will be finalized.

3.3 Creating Self-Regulatory Organizations (SROs)

Earlier in the year, the CMA Chairman asked the project to work with ECMA, CASE, and MCSD to prepare them to assume SRO status. These institutions, the Chairman said, would be granted SRO status after passage of the new Capital Markets Law, currently being revised by the MOE and CMA. CMD continues its SRO assistance to all three institutions (see Sections III, 3.2; IV, 3.1; and V, 1.1). Major aspects of this assistance program requires a review of the SRO section of the new Capital Markets Law. CMD has yet to receive a copy of the draft law.

4. Public Awareness and Outreach

4.1 Training Financial Journalists

CMA-CMD Press Forum

No press forums were conducted during the third quarter. A two-day forum is planned for the fourth quarter on corporate governance and minority shareholder rights.

Financial English Training for Journalists

Financial English training, Phase II of a program for financial journalists, started at the beginning of October and will continue through November. The program, which is funded through the DT2 project, is being conducted by the Arab Academy of Alexandria. Thirty jouranlists and five CMA staff members are attending the course. Phase I of the program, training in financial topics, was completed at the end of the second quarter.

4.2 Improving Press Relations and Public Outreach

CMD and short-term advisor Ms. Konnie Andrews completed the CMA's 1999 Annual report. We assisted with all phases of the report-development process, including writing, layout, and production. Over 1,000 copies of the report were distributed locally and internationally. Recipients included approximately 150 local brokerage firms, Egyptian and U.S. universities, and market institutions and participants in Egypt and around the world. The report focuses on the CMA's achievements during the year, highlighting its progress towards assuming a purely regulatory role in the Egyptian market and the development of new laws and regulations.

CMD and Ms. Andrews also continued to work on a series of brochures designed to educate investors and potential investors about the Egyptian capital market and the types of investment options it provides. The brochures are being produced under the sponsorship of ECMA (see Section V, 4.3).

4.3 Establishing a Website

The CMA website operated successfully throughout the reporting period. The CMA staff has moved the site to the authority's servers and placed it behind a firewall. During a September

follow-up visit, short-term advisor Casey Wolfe (Edelman Communications, LLP) formatted the 1999 Annual Report for publication on the site. Mr. Wolfe reports that the CMA staff has started to effectively manage the site and update its content. The site contains basic information on the CMA and its role in the Egyptian market, as well as copies of the CMA's annual report, press releases, and the current Capital Market Law, its Executive Regulations, and a list of licensed entities operating in the capital market.

4.4 Improving the Quality of Financial Journalism on Television

Financial News Segments

CMD continued its ongoing support for Egyptian TV's nightly financial news segment and daily market closing report. Both segments appear on Egypt's Channel One and are repeated on other channels throughout the evening. CMD assistance focused on the effective presentation of graphical material on both shows.

Educational Video Series Pilot

This task is being conducted jointly with CASE. See Section III, 4.1.

SECTION III

Cairo and Alexandria Stock Exchanges

CMD's work with CASE was reinvigorated during the third quarter with a field visit by a new short-term expatriate advisor. We made significant progress on the development of new rules for the board of directors and membership, as well as on other work plan tasks.

Throughout the quarter, CMD continued to build strong working relationships with CASE Chairman Dr. Sameh El Torgoman and his senior staff.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

Major Achievements: Third Quarter 2000

- Drafted and delivered new membership and board of directors rules.
- Delivered outline of recommended organizational structure.
- Initiated comprehensive examination of market surveillance and enforcement in the Egyptian market.
- Completed initial version of two-segment pilot for the educational video series.
- Sponsored attendance by CASE staff at 400 person-hours of DT2-funded training, and 8 CASE staff members are currently attending English-language courses at AUC-CACE.

1. Institutional Development and Training

1.1 Corporate Planning and Organizational Development

Corporate Planning

Short-term expatriate advisor Brian Riddell proposed organizational changes to CASE. He recommended that changes not be made until after CASE develops a strategic business plan, for which Mr. Riddell delivered an outline. CMD will assist with the development of the business plan after new rules for the exchange are adopted, CASE's first priority (see Section 3.1).

Training for the CASE Management and Staff

With the assistance of the USAID-funded DT2 project, CMD continued to provide training programs to the CASE management and staff. These programs are summarized in Appendix B.

1.2 Improve Procedures for Managing Market Operations

Surveillance and Enforcement

As discussed in Section II of this report, short-term advisor Molly Bayley is examining surveillance and enforcement in the Egyptian market. She will recommend improvements in this area of market operations in her report, due for finalization in November. These recommendations will encompass both CASE and the CMA, including the division of

responsibilities between them. Mr. Riddell is assisting Ms. Bayley in this area (see Section II, 1.2 for a summary of CMD's preliminary findings and recommendations).

Over-the-Counter Market

In his draft membership rules for CASE, short-term expatriate advisor Brian Riddell included new rules for dealing with over-the-counter (OTC) trades (see Section 3.1).

2. Information Technology Assistance

2.1 Improve Data-Processing Systems

CMD is still waiting for approval of the Arabization of the first two user manuals for CASE's new trading system as well as approval of glossaries of terms for the manuals. The glossaries are necessary to ensure that the Arabic terms in the manuals match the terms in the Arabized software. CASE and the software developer are translating the trading screens and adapting them to the Egyptian market. After comments on the first two manuals are received and the glossaries are approved, CMD will complete the Arabization of the third manual.

As reported previously, CMD completed the procurement and delivery of hardware to support the exchange's new trading system in the first half of the year. CASE is currently installing and testing the system.

3. Legal and Regulatory Assistance

3.1 Improve Current Rules Governing Exchange

Board of Directors and Membership Rules

Short-term advisor Brian Riddell drafted and delivered two new sets of rules to CASE—rules of the board of directors and membership rules. The board rules cover the following areas:

- Objectives and purpose
- Definition of terms
- Membership
- Board of directors
- Disciplinary proceedings
- Fees and charges
- Arbitration
- Dealings and settlements

The rules will provide the basis of articles of incorporation if and when CASE develops into an SRO. They also provide the overall framework for the development of other rules, including the definitions common to each.

Box 1

Why Draft New Rules for CASE?

The CASE Chairman asked CMD to review membership rules drafted by another consultant engaged directly by the exchange. The project's U.S.-based legal subcontractor Winston & Strawn reviewed the rules and delivered comments in August. Short-term advisor Brian Riddell, who has extensive experience writing rules for U.S. and developing stock exchanges, also reviewed the rules. Both Mr. Riddell and Winston & Strawn discovered deficiencies in the rules. Most importantly, Mr. Riddell advised the Chairman that the rules were inconsistent with Egyptian law and did not conform to trading activities as currently practiced in Egypt. For example, the rules included provisions for dealers, market makers, short selling, and other areas and practices that are currently illegal under the Capital Market Law and its executive regulations.

As discussed in the body of this QPR, CMD delivered drafts of board of directors and membership rules by the end of the quarter. A new draft of CASE listing rules will be delivered in November.

Following the board rules, Mr. Riddell drafted new membership rules for the exchange. The membership rules include provisions in the following areas:

- Membership qualifications, applications, and registration
- Member obligations and code of ethical conduct
- Investor protection
- Disciplinary proceedings against members, their employees and others
- Prohibition or limitation with respect to access to services offered by the exchange or by members

Both the board and membership rules were reviewed by the CASE staff and subsequently revised by Mr. Riddell. The final drafts were submitted to the exchange at the end of the quarter.

Listing Rules

The CMA asked the project to review draft listing rules submitted by CASE earlier in the year. After Mr. Riddell delivered the board and membership rules, CMD offered to rewrite the listing rules to conform to the other two sets of rules, as well as to Egyptian law and current trading practices. The CASE Chairman accepted CMD's proposal. Mr. Riddell will deliver a revised draft of the CASE listing rules in November. CASE will then finalize the rules and resubmit them to the CMA.

3.2 Advise and Assist with the Creation of SROs

The three sets of rules being drafted by CMD (board, membership, and listing rules) will serve as a foundation for the exchange's operations as it develops into an SRO. Nonetheless, the remainder of CMD's legal work in this area is dependent on receipt of the draft of the new Capital Market Law, which will specify the basic legal framework for SROs in Egypt (see Section II, 3.3).

4. Public Awareness and Outreach

4.1 Enhance Awareness of Investors, Students, and the General Public

Educational Video Series Pilot

CMD and subcontractor Edelman Communications International (ECI) completed initial version of a two-segment pilot for the educational video series. The segments are

- An introduction to the Egyptian capital market and the video series
- An overview of investing in stocks

The video segments are being produced by short-term advisor Lawrence Wells, who gathered video material and conducted interviews during a field visit at the beginning of the third quarter. The pilot educational video includes interviews with the CMA Chairmen and market participants.

Educational Brochures

CMD planned to produce a series of educational brochures with the CASE Marketing Department, but follow-up discussions revealed that CASE preferred to develop its own materials. The CMD-produced brochures will be sponsored by ECMA (see Section V, 4.3). The project is coordinating with CASE to minimize overlap.

4.2 Help Organize and Conduct Major Events

VNR to Publicize New Trading System and Remodeled Trading Floor

To publicize the development of the new trading system and remodeling of the stock exchange floor, CMD and subcontractor ECI delivered a video news release (VNR) in the second quarter.

SECTION IV

Misr for Clearing, Settlement, and Depository

CMD delivered the final English and Arabic drafts of executive regulations to accompany the new Central Securities Depository and Registry Law (Law 93/2000). With MCSD and market participants, we also identified and resolved the remaining issues related to the creation of a securities lending and borrowing service, allowing MCSD's programmers to move forward with system development. In addition, CMD and MCSD completed the procurement and installation of a firewall security system, and received and evaluated proposals for a network management system, our last major procurement on behalf of MCSD.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

Throughout the quarter, CMD benefited from its continued close working relationship with MCSD Deputy Chairman and Managing Director Mohamed Abdel Salem and the entire MCSD management and staff.

1. Institutional Development and Training

1.1 Document Services, Systems, and Controls

Internal Audit Function

With local subcontractor Zarrouk, Khaled, & Co., CMD evaluated MCSD's current internal audit procedures and recommended improvements. The draft evaluation report was delivered to MCSD for review and comment. The final version of the report will be presented in the fourth quarter.

The evaluation of MCSD's current internal audit function indicated that improvements in several areas are warranted, including the following:

Major Achievements: Third Quarter 2000

- Delivered final draft (in English and Arabic) of executive regulations to the new Central Securities Depository and Registry Law.
- Drafted and delivered report on the development of the securities lending and borrowing system, with an outline of issues to be discussed in an October workshop.
- Translated new Central Securities Depository and Registry Law into English, and revised it in accordance with feedback received from the CMA and securities industry.
- Completed procurement and installation of firewall security system.
- Reviewed MCSD's network security and recommended improvements.
- Evaluated responses to network management system request for proposals (RFP), and attended presentations by bidders.
- Presented draft budgeting manual to MCSD management.
- Delivered draft evaluation report on MCSD's internal audit function.
- Conducted 240 person-hours of specialized workshops and seminars and sponsored attendance by MCSD staff members at 720 person-hours of DT2-funded training. Ten MCSD staff members are attending English-language courses at AUC-CACE.

- The internal auditing department does not have a clear mandate nor does its staff have a clear understanding of their functions and responsibilities within the organization.
- The internal auditing department does not have written policies and procedures to guide their activities, nor do they have a code of conduct.
- While internal auditors have knowledge of many of MCSD's operations, they do not have training in the practice of internal auditing.
- Current internal audits are limited to financial information.

During the next phase of the internal audit assistance program, short-term expatriate and local advisors will develop an internal audit procedures manual covering MCSD's financial, as well as operational and information technology, functions, which is in accord with international standards. CMD will also conduct on-the-job training and workshops for the MCSD internal audit staff, helping them identify their roles and responsibilities within the organization. The short-term expatriate advisor is scheduled to arrive in late October.

Budgeting Manual

CMD completed and delivered the draft budgeting manual to MCSD for review and comment. The project also Arabized the manual. At the end of the quarter, the draft was modified in response to comments received from MCSD, as well as from CMD's subcontractor Zarrouk, Khaled, & Co. The budgeting manual was presented to the MCSD Deputy Chairman and Managing Director, as well as to more than 20 managers. A training program for the managers will be started in the fourth quarter.

The budgeting manual and accompanying training program are designed to help MCSD create and operate a sound budgeting system that provides management with an effective tool for developing accurate and reliable projections of its revenues and costs, allowing better planning and control of operational and capital expenditures. A central element of the new budgeting procedures is the involvement of middle managers in the budgeting and budget implementation processes. This will enable the managers to make more informed financial decisions, especially those related to fee structure, staff remuneration, and investments in new systems and operations. This task is driven by the regulatory requirements of a self-regulatory organization (SRO)—i.e., service fees that fairly and reasonably allocate costs among users, and keeps them as low as possible, while ensuring the long-term financial stability of MCSD.

1.2 Strengthen Training Capacity

Advanced Training of Trainers

CMD's advanced training-of-trainers program will resume at the beginning of the fourth quarter with a third field visit by short-term expatriate advisor Jane Pettit.

DT2 Training Programs

CMD continued to sponsor attendance by MCSD staff members at training programs provided through the USAID-funded DT2 project. These training programs were selected in partnership with the MCSD management and are designed to increase the overall functional

capacity and abilities of the MCSD staff. Appendix B provides a summary of the programs conducted during the third quarter.

2. Information Technology Assistance

2.1 Upgrade Computer and Network Management Systems

Firewall Procurement and Installation

MCSD continued to upgrade its network security with CMD assistance. The firewall hardware and software procured by the project were installed. CMD also engaged a short-term expatriate network security expert to review and suggest improvements to MCSD's management. The advisor evaluated the installation of the firewall security system and MCSD's overall network security policy. In a confidential report, he recommended improvements to the MCSD Deputy Chairman and Managing Director, as well as MCSD's training needs in this area. Starting in the fourth quarter and extending into 2001, CMD will provide additional training in this area through the USAID-funded DT2 project.

Network Management System

CMD received responses to the request for proposals (RFP) for a network management system. The proposals were evaluated by MCSD and CMD. At the end of the quarter, CMD and MCSD started attending presentations by the bidders. We expect to complete the procurement during the fourth quarter. As noted previously, short-term advisor Joe Wiesenfeld (from Data General) evaluated MCSD's current requirements and assisted with the development of the RFP.

3. Legal and Regulatory Assistance

3.1 Improve the Legal Structure Governing MCSD Operations

Depository and Central Registry for Securities Law and its Executive Regulations

CMD delivered a final draft of the executive regulations for the new Central Securities Depository and Registry Law (Law 93/2000). The regulations cover the following areas: licensing procedures, the self-regulatory framework, minimum licensing requirements, and conditions and standards for MCSD's depository, clearing, settlement, and registry services. CMD has offered to help the MOEFT finalize the regulations, which are scheduled to be issued in the fourth quarter.

We are also drafting additional rules under the law to cover net capital requirements for broker/dealers and margin trading by securities brokerage companies, and have provided CMA rules and procedures for the registration of custodians and depository banks (see Section II, 3.1 for more details about these rules).

CMD also translated the new law into English and distributed copies to MCSD, the CMA, and other institutions for review. After receiving comments from CMA Deputy Chairman Ashraf Shamseldin, as well as from ECMA Board Member Hisham Tawfik, the translation was revised and reissued for eventual posting on the CMA's website.

**Bankruptcy Provisions and the Legal
Risks Associated with Clearance and
Settlement**

CMD short-term advisor Marc Albert will continue work on bankruptcy provisions in Egyptian law early in the fourth quarter. These efforts will focus on the development of amendments to clarify Egyptian law designed to reduce legal risk associated with the settlement and clearing process. This is an ongoing task. Draft legal amendments to existing law are underway and will be completed next year.

**3.2 Securities Lending and
Borrowing Service and SGF
Assistance**

CMD short-term advisor Charles Rubin completed a status report on the development of the securities lending and borrowing service. It was distributed to MCSD, as well as capital market institutions and participants. The report provides a business and operations overview of the system and outlines its functional and system specifications. The report also identifies a number of issues to be discussed by MCSD and market participants (see Box 1). The issues will be discussed during an October workshop.

Mr. Rubin also continued to help the MCSD Securities Accounting Department and IT Department to outline the business requirements for implementing the lending and borrowing service. CMD expects that the securities lending and borrowing service will be fully operational by mid-2001.

Box 1

**Issues Related to the Securities Lending and
Borrowing Service**

In his status report, CMD short-term advisor Charles Rubin raised a number of policy issues for discussion and resolution by MCSD, market institutions, and market participants. These issues include:

- Should there be mandatory borrowing, i.e., should customers be required to participate in the lending and borrowing system?
- Should lenders (or potential lenders) be permitted to exclude lending their shares to customers of specific brokers or bookkeepers?
- Should MCSD charge its participants transaction fees or should its share in the interest income generated from the cash collateral?
- Since the lenders will earn comparatively little interest income, should the borrowers also pay a fee?
- Should MCSD be the only investor of cash collateral or should customers (lenders) be allowed to select their bookkeeper/custodians to control and invest their cash collateral?
- When making a loan to a delinquent seller, should the system first search for a lender that has enough shares to make the full loan, or should the system use any amount of shares from the lenders in sequence in order to accumulate the required loan amount?
- Should new customers be added to the pool of potential lenders at the end of the "queue" or randomly?
- Should MCSD identify the contra party to the loan on the "securities lending/borrowing activity report" distributed to appropriate brokers and bookkeepers?
- Should the system lend shares that have already been sold, but where the trade has not yet settled?

These issues were all resolved during a workshop in early October. A report on the workshop's findings will be distributed to working group participants and other interested parties.

4. Public Awareness and Outreach

4.1 Implement Integrated Communications Strategy

CMD prepared a presentation for MCSD's Deputy Chairman and Managing Director to deliver at a State Street Bank conference on "Investing in Egypt." He delivered the PowerPoint presentation in September. The conference was held in Boston. CMD also identified, contacted, and scheduled appointments for the Deputy Chairman and Managing Director with transfer agents during his trip to the U.S.

CMD will engage a short-term expatriate advisor from subcontractor Hill & Knowlton to help MCSD implement the communications strategy developed by the project in 1999 after MCSD hires a full-time communications specialist, with whom the CMD advisor will work closely. MCSD is currently recruiting for the position.

4.2 Develop Sustainable Website

CMD has offered to provide editorial assistance on MCSD's English website. This assistance will be initiated in the fourth quarter.

SECTION V

Securities Industry

The project completed and distributed the “Guide to Reading Financial Statements,” and drafted four investor education brochures designed to provide basic information on the capital markets and the investment options they offer. During the quarter, CMD assigned Chief Administrative Officer Renato (Jun) Labadan to the position of securities industry advisor. He assumed his responsibilities in late August.

Throughout the quarter, CMD continued its close working relationship with ECMA Executive Director Mr. Sameh Sabbour and EIMA Executive Director Mr. Hatem El Gamal. Mr. El Gamal has recently left his position at EIMA to join Telecom Egypt. No replacement has yet been named. CMD is grateful for the good partnership it has had with Mr. El Gamal and wish him success in his future endeavors. For both ECMA and EIMA, the project’s activities are focused on two areas—institutional development and training and public awareness and outreach.

Major Achievements: Third Quarter 2000

- Printed and distributed approximately 10,000 copies of the CMD-produced “Guide to Reading Financial Statements.” Received recognition from Institutional Partners and various Egyptian Government Agencies.
- Completed drafts of four educational brochures.
- Recruited short-term expatriate advisors to assist with ECMA’s organizational development for SRO status preparation and EIMA’s development of standards for measuring investment fund performance.

A. Egyptian Capital Market Association (ECMA)

1. Institutional Development and Training

1.1 Develop Organizational and Membership Structures Needed to Become an SRO

CMA Chairman H.E. Abdel Hamid Ibrahim told the project that ECMA would be one of the first candidates for SRO status after the new Capital Market Law (CML) is passed. As discussed previously, CMD has yet to receive a draft copy of the new CML, which is expected to specify the requirements for SROs in Egypt.

During the fourth quarter, a CMD short-term expatriate advisor will review ECMA’s current organizational structure and recommend changes to prepare the organization to assume SRO responsibilities. The short-term advisor will be fielded in November.

1.2 Improved and Expanded Training and Certification Programs at ECMA

CMD continued to support the training database that it developed for ECMA last year. Information has been entered and the database is functioning effectively.

The CMD short-term expatriate advisor discussed above (Section 1.1) will also review ECMA’s current training and certification programs and recommend improvements. The recommendations will include organizational and staffing needs.

2. Information Technology Assistance

As noted above (Section 1.2), CMD continues to support implementation of the training database. It is also supporting the implementation of a CMD-developed database of employees of member firms. Both databases are functioning effectively.

3. Legal and Regulatory Assistance

CMD's legal and regulatory assistance to ECMA is related to the association's SRO-development efforts (see above, Section 1.1).

4. Public Awareness and Outreach

4.1 Develop a Forum on Financial Instruments and Assist with ECMA's Existing Forum

CMD and ECMA have begun discussions on possible topics and speakers for a forum. In preliminary meetings, the IFC has expressed interest in joining CMD and ECMA in holding one-on-one meetings with ECMA members and selected companies/issuers. These one-on-one visits will cover the creation of the corporate bond market as well as derivative equity offerings. ECMA was receptive to this concept, and we are waiting for the IFC's Washington-based representative to set a timetable for these joint sessions.

A proposed schedule for the forum, which includes topics and suggested speakers, will be submitted to the ECMA Board in the fourth quarter.

4.2 Develop Sustainable Website

CMD and subcontractor Edelman Communications International (ECI) presented a plan for developing a website for ECMA modeled on an SRO-type of organization such as that of the National Association of Securities Dealers' (NASD). ECMA accepted the proposal. We will provide assistance on the creation of a website during 2001.

4.3 Additional Public Outreach Tasks

Guide to Reading Financial Statements

CMD printed and distributed the "Guide to Reading Financial Statements." The ECMA-sponsored booklet, which is in Arabic, was distributed to all of ECMA's member firms, as well as to government agencies, ministries, international organizations, universities, financial journalists, and training institutes. Positive feedback was received from the Ministry of Public Enterprise, MOEFT, CMA, ECMA, and members of the securities industry. In total, approximately 10,000 copies of the booklet were printed and distributed.

The guide is divided into sections covering balance sheets, statements of income, statements of retained earnings, statements of cash flows, auditors' reports, analyzing financial statements, and prospectuses.

Educational Brochures

ECMA is also sponsoring a series of educational brochures being drafted by the project with the help of short-term expatriate advisor Ms. Konnie Andrews. At the beginning of the year,

we planned to draft these brochures under the sponsorship of the CMA or CASE, but they both agreed that it would be more appropriate for ECMA to sponsor the publications.

CMD and Ms. Andrews completed drafts of four educational brochures:

- Introduction to investing in Egypt
- Preparing to invest
- Choosing investment instruments
- Managing your investments

CMD coordinated the selection of topics closely with ECMA. The four brochures will be printed and distributed by the end of the year.

B. Egyptian Investment Managers Association (EIMA)

1. Institutional Development and Training

1.1 Develop Certification Program at EIMA

EIMA would like to develop a program that is equivalent to the CFA program offered by the U.S.-based Association for Investment Management and Research (AIMR). In the future, CMD plans to bring in a short-term advisor from the AIMR to discuss these plans in detail and lay the framework for attaining this goal.

The certification program will not be established this year as EIMA has neither the organizational capacity to maintain one nor an Executive Director who will coordinate and oversee this training/certification program.

1.2 Assist EIMA with Organizational Development

EIMA decided to seek SRO status after passage of the new Capital Market Law (CML). In the interim, it is applying for NGO status under the old Private Voluntary Organizations Law (a new law covering this area has recently been declared unconstitutional). CMD did not provide any assistance in this area during the third quarter.

1.3 Additional Institutional Development and Training Activities

As part of its role in the industry and to help increase investor confidence in the market, EIMA is developing international standard guidelines for measuring the performance of investment funds and standards for promoting these funds among investors and the general public. A CMD short-term expatriate advisor will be fielded at the beginning of the fourth quarter to help draft guidelines and standards in this area. The new standards will be based on those developed by AIMR (Global Investment Performance Standards or GIPS) and accepted in more than 29 countries.

4. Public Awareness and Outreach

4.1 Increase Effectiveness of EIMA's Public Outreach and Awareness Efforts

CMD plans to help EIMA organize a public event to announce its official recognition as an NGO. When recognition is received, we will initiate assistance in this area.

SECTION VI

Central Bank of Egypt

CMD focused its assistance to the CBE on the development of the book-entry registry for government securities and facilitating the introduction of new financial instruments during the quarter. We also presented a streamlined action plan for the creation of primary dealers to the CBE Governor and, at his request, to the sub-governors.

CMD continued its close working relationship with CBE Governor H.E. Ismail Hassan, Deputy Governor Dr. Mahmoud Abul-Eyoun and Senior Advisors to the Governor Mr. Mostafa Eweis and Dr. Mohamed El Barbary. In addition, we have built strong working relationships with many CBE department heads and their staffs.

The project's year-2000 activities are focused in two basic areas:

- Institutional Development and Training
- Information Technology Assistance

CMD also provides legal and regulatory assistance to the CBE as it relates to ongoing tasks.

1. Institutional Development and Training

1.1 Facilitate the Introduction of New Financial Instruments

As discussed in our work plan, new financial instruments are brought forward by the market. To facilitate their introduction, CMD has continued discussions with market participants about possible new financial instruments and the benefits they offer issuers and investors. We are also working with the CBE, in particular the Bank Control and Securities departments, to resolve regulatory obstacles to the introduction of new instruments. We undertook the following during the quarter:

- Improved the understanding of negotiable certificates of deposit (CDs) among local banks, and recommended to the CBE Bank Control Department that negotiable CDs be approved and that reserve requirements be reduced on them to facilitate their successful introduction into the market.
- Continued to recommend that the CBE allow banks to use bonds for repurchase agreements. Bond repurchases would be an effective indirect monetary control technique, especially during periods of high drain, e.g., Ramadan.

Major Achievements: Third Quarter 2000

- Delivered a streamlined action plan for the creation of primary dealers to the CBE Governor, sub-governors, and the Minister of Finance.
- Presented a range of new financial instruments to CBE departments, the MOF, and market participants, including negotiable certificates of deposit (CDs), bond repurchase agreements, commercial paper, and cash management bills.
- Conducted workshop on bond markets in Egypt as part of the USAID-funded TAPR Pension Reform program.
- Formed joint CBE-CMD task force to implement the book-entry registry, and worked together to develop detailed system requirements.

- Recommended to local banks that they and their customers consider issuing commercial paper to lower costs to borrowers (versus bank loans) and create fees for banks.
- Secured a commitment from a local rating agency to rate commercial paper if and when it is introduced into the market.
- Advised the MOF to use cash management bills to payoff Egypt's vendors and restructure debt issuance in Egypt.
- Conducted workshops on money market instruments for the CBE and CMA staff.

CMD Money and Bond Markets Advisor John Noonan also made presentations at four workshops sponsored by the USAID-funded TAPR Pension Reform Training program. Participants were drawn from the Ministry of Social Insurance, MOF, MOEFT, and the CMA, as well as from private and public pension funds. During the workshops, Mr. Noonan helped to link pension reform with the development of Egypt's capital markets. TAPR reports that feedback from workshop participants was very positive.

1.2 Improve the Efficiency of Government Securities Markets

Primary Dealers

CMD and U.S. Treasury Advisor Keith Krchak presented a revised and streamlined action plan for the implementation of a primary dealer system to the CBE Governor and Minister of Finance. The document is based on an implementation plan delivered in the first quarter. The new plan presents the steps—e.g., modifying the rules governing debt auctions and bond trading in the secondary market—that are necessary to successfully introduce primary dealers. At the Governor's request, CMD also presented the action plan to the CBE sub-governors. At the suggestion of the CBE, CMD is currently working with the MOF on the implementation of these steps (see Section VII).

Dealer-Based Bond Trading

CMD worked with approved and prospective bond dealers throughout the quarter to facilitate the introduction of dealer-based trading in the secondary market. An International Finance Corporation (IFC) representative participated in the discussions. CMD's work in this area is discussed in the CMA section of this QPR (Section II, 1.3).

2. Information Technology Assistance

2.1 Develop a Book-Entry Registry for Government Securities

With the CBE staff, we established a joint task force to implement the book-entry registry. It meets weekly. The analysis and design phase of system development is primarily being done by the CBE IT staff, with CMD assistance. CMD will provide more assistance during the development phase, as the CBE staff is unfamiliar with the Oracle developer application being used to create the system. CMD will also start a workshop series in the fourth quarter on the fundamentals of database system development. We will also start a training program in database development through the USAID-funded DT2 project. This program will extend through 2001.

To help the CBE staff to understand the book-entry registry's requirements, CMD conducted workshops on trading in T-bonds and T-bills and the role of the market regulator. Knowledge in this area is needed to better define the system's requirements. For example, the registry should be able to track T-bills after the auction phase, and include sufficient information to allow CBE management to fulfill its regulatory role. On the other hand, details about settlement of bank accounts (at the time of purchase, repurchase, or redemption) do not need to be part of the registry. The system may include an external interface to the settlement system to provide it with necessary information about the amounts to be credited to banks after the repurchase or redemption of bills. The CBE-CMD task force will finalize a detailed functional design report during the fourth quarter and present it to CBE management for approval.

SECTION VII

Ministry of Finance

At the request of the Minister of Finance and with the concurrence of USAID, CMD has started providing technical assistance to the MOF. This assistance is focused on the establishment of the first debt management unit at the MOF to ensure the implementation of market-based auctions and the establishment of primary dealers. The MOF has also asked for CMD's assistance with its upcoming \$500-million sovereign Eurodollar bond offering.

To facilitate the establishment of the debt management unit, CMD recruited Ms. Ghada Moustafa to head the unit. Throughout the quarter, CMD strengthened its already strong working relationship with Minister of Finance Dr. Medhat Hassanien, as well as with Ms. Mai Farid, special assistant to the Minister.

Major Achievements: Third Quarter 2000

- Delivered streamlined action plan for the creation of primary dealers and market-based auctions for government securities.
- Minister of Finance announced intention to create primary dealers and initiate market-based auctions.
- Delivered memorandum summarizing main legal and tax impediments to the creation of primary dealers.
- Assisted with the creation of a debt management unit within the MOF.
- Trained new staff of debt management unit.
- Initiated training program for potential primary dealers.
- Assisted the MOF with preparations to issue \$500 million in government bonds on international markets.

1. Institutional Development and Training

1.1 The Creation of Primary Dealers

CMD is working closely with the Minister of Finance and his staff on the establishment of primary dealers and market-based auctions. At the beginning of the quarter, CMD and U.S. Treasury Advisor Keith Krchak presented a revised and streamlined action plan for the implementation of a primary dealer system to the CBE Governor and Minister of Finance. The document is based on an implementation plan delivered in the first quarter. The plan calls for a commitment on the part of the Egyptian government to preannounce and auction government securities according to a regular schedule. It also presents additional issues that need to be resolved in order to successfully introduce primary dealers. CMD initiated assistance in three areas:

- The creation of a debt management unit within the MOF.
- The resolution of legal and tax inhibitions to the creation of primary dealers, underwriting government debt, and trading in government bonds.
- Training for potential primary dealers and the MOF staff.

The Minister accepted CMD's action plan and publicly announced that, in its capacity as the issuer of Egypt's government debt, the MOF would create primary dealers and conduct market-based auctions for government securities. As currently planned, candidates will be asked to apply for primary dealer status starting in December. The formal selection of

primary dealers will occur in the first quarter of 2001. We expect that the primary dealer system will be fully established during 2001.

Debt Management Unit

To help the ministry assume a more active role as the issuer and manager of Egypt's government debt, CMD began providing assistance with the establishment of a debt management unit within the MOF. With the Minister, CMD recruited Ms. Ghada Moustafa, to help establish the unit. Ms. Moustafa is located onsite at the MOF and works under the joint direction of the Minister of Finance.

Mr. Noonan and Mr. Krchak conducted extensive training sessions for Ms. Moustafa and Ms. Farid throughout the quarter. These sessions are preparing them to advise the Minister on debt management and to work closely with Egypt's primary dealers when they are established. The training covered the following:

- Issuance and secondary trading in government bonds
- Clearance and settlement of government bonds
- Yield curve and analysis
- Auction types and methods
- Financing of government dealer inventories

Additional training will be conducted throughout the fourth quarter and in 2001.

Legal and Tax Inhibitions

With the U.S. Treasury, we delivered a memorandum summarizing tax and trading issues related to the establishment of primary dealers. These issues include:

- The 1 percent tax on bank loans against dealer inventories.
- Problems associated with legal limits on tax deductions for the cost of funds used to purchase tax exempt securities.
- The need for dealers to be able to settle securities on the trade date.
- The proper lines of regulatory responsibility for primary dealer trading.

The Minister is currently considering each of these issues. CMD will continue to provide assistance, as necessary, to help the MOF resolve legal, regulatory, and tax impediments throughout the remainder of the year and under our 2001 Work Plan.

Training for MOF and Potential Primary Dealers

In addition to training for the debt management unit, CMD will initiate training for other members of the MOF staff during the fourth quarter and in 2001.

CMD also agreed to train potential primary dealers to assume their future roles in the Egyptian market. This training is taking place under the auspices of the Egyptian Dealers Association (EDA), which was recently created as a private voluntary association under the Ministry of Social Affairs. The EDA plans to develop into an association for the primary

dealers of government securities. CMD will assist with the development of the EDA's training programs. An initial seminar series on bond trading and primary dealers is scheduled for January 2001.

1.2 Assistance on International Bond Issuance

At the request of the Minister of Finance and CMA Chairman, CMD has started assisting the MOF with preparations for an upcoming \$500-million sovereign bond issue on international markets. Proposals to underwrite the bond issue are due in early November. Our assistance in this area will be discussed in our next QPR.

SECTION VIII

Ministry of Economy and Foreign Trade

Under the Year-2000 Work Plan, CMD's assistance to the MOEFT is focused in two areas: reviewing and commenting on the new capital market law and improving the ministry's website.

CMD is also working closely with the MOEFT on other legal and regulatory tasks. During the reporting period, most of this work was concentrated on finalizing the executive regulations to the new Central Securities Depository and Registry Law.

Major Achievement: Third Quarter 2000

- Delivered full set of executive regulations for the new Central Securities Depository and Registry Law.
- Reviewed and outlined follow-up improvements to the MOEFT website.

3. Legal and Regulatory Assistance*

3.1 Assist with Review and Modification of New Capital Market Law

CMD completed and delivered a full draft, in Arabic and English, of the executive regulations to the new Central Securities Depository and Registry Law. If needed, we will assist with the finalization of the regulations during the fourth quarter. The regulations are discussed in the MCSD section of this report (Section IV, 3.1).

When the MOE provides us with a draft of the new Capital Markets Law (which is currently being revising), we will provide comments using the extensive resources of our legal and regulatory team. The project also plans to help the MOEFT and CMA draft executive regulations to accompany the new law (see CMA 3.1).

4. Public Outreach and Education

4.1 Improve the Look and Content of the MOEFT Website

CMD completed and delivered a new version of the MOEFT website at the end of the second quarter. Launch of the site was put on hold due to other priorities within the ministry. During a third-quarter follow-up visit by CMD short-term advisor Casey Wolfe (Edelman Communications International), CMD and the MOEFT determined that additional work on the site was warranted to ensure its sustainability. For example, the ministry is planning to adopt MS SQL server as its database application, and most of the site's data is stored using MS Access. CMD will assist with the migration of the data. The project will also:

* The activities and outcomes in this section maintain the same numbering system we have used throughout this QPR and the work plan. There are no institutional development or information technology activities currently underway for the MOE.

- Refine secure pages that allow the MOEFT staff to post new data to the website using simple forms (without the need for additional programming or direct interaction with the underlying content of the databases).
- Improve cross-browser compatibility of some navigation menus by redesigning these menus with JavaScript.
- Improve searchability of the site by installing and configuring the MS Index Server on the site.

These enhancement will be completed by the end of the year. We expect the MOEFT to formally launch the site in early 2001.

SECTION IX

Monitoring and Evaluation

CMD monitors its progress along three dimensions—the work plan’s major outcomes, intermediate results, and long-range outcomes. The intermediate results and long-range outcomes were determined by USAID and designed to orient CMD’s work and evaluate its progress over the life of the project.

Monitoring progress under the work plan is based on the outcomes presented in the institutional sections and the project’s expected progress towards those outcomes during 2000. *Some of the outcomes will not be accomplished in the current year and several are ongoing aspects of the capital market’s development. In these cases, we track our progress based on the expected year-end results discussed in the work plan.*

In addition, completion of many of the outcomes depends on our institutional partners’ progress. For example, CMD helped draft new regulations, but promulgation of these regulations, the successful completion of the outcome, is the prerogative of the ministries and institutions involved. The steps necessary to complete the outcomes, as well as progress during the quarter, are discussed in the institutional sections of this report and summarized in the table below (Section A).

A. Quarterly Monitoring and Evaluation System

Institution	Outcome	Major Year-2000 Activities	Percent Complete ¹	Progress to Date in 2000
CMA	1.1 Corporate Planning and Organizational Development (completion after year-end)	<ul style="list-style-type: none"> • Level 2 of process model • Automation of key activities • Assistance developing procedures manuals for major functions • Facilitate development of three-year, rolling corporate plan 	50%	<ul style="list-style-type: none"> • Completed and delivered level one of process model for all CMA Departments (Q1). • Completed level two of process model for three of five departments in the Market Operations Sector (Q2). • Conducted workshop on automation process for the CMA management (Q2). • Drafted system requirements for bond tracking system (Q2). • Completed level two of process model for the Market Operations Sector, which encompasses the CMA's key market-related functions (Q3).
	1.2 Improved and Integrated Surveillance, Compliance, and Broker Registration and Testing Programs	<ul style="list-style-type: none"> • Surveillance program and training • Broker compliance and field inspection • Broker registration and testing 	30%	<ul style="list-style-type: none"> • Finalized and delivered technical specifications for remodeled surveillance workspace (Q1). • Drafted and delivered regulations on insider trading, price manipulation, and selective disclosure (Q2-3). • Initiated comprehensive evaluation of market surveillance and enforcement in the Egyptian market (Q3).

¹ The percentages are based on work toward completion of the activities and goals that CMD plans to accomplish during 2000, not the overall completion of the outcomes, some of which will take several additional years to accomplish. For a discussion of the project's goals for the year, see the institutional sections of this report and the Year-2000 Work Plan (under "timing and deliverables" for each outcome).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date in 2000
CMA (cont.)	1.3 Facilitate the Introduction of New Financial Instruments (ongoing)	<ul style="list-style-type: none"> • Workshops • Legal and regulatory assistance, as required 	80%	<ul style="list-style-type: none"> • Bond decree signed and issued by Minister of Economy and Foreign Trade (Q1). • Conducted five workshop sessions on money markets and money market instruments (Q1). • Completed and delivered discussion paper, in Arabic and English, on venture capital and turn-around funds (Q1). • Drafted standard forms for bond dealers (Q1). • Delivered outline of elements in sale buyback agreements for bond dealers (Q2). • Conducted six workshop sessions on bond trading for the CMA staff (Q2-3). • Conducted meetings with prospective bond dealers to expand their understanding of bond dealing and the bond decree (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date in 2000
CMA (cont.)	1.4 Increase the Functional Capacity and Abilities of the CMA Staff (ongoing)	<ul style="list-style-type: none"> • On-the-job training • Workshops 	75%	<ul style="list-style-type: none"> • Conducted course on credit risk analysis (Q1). • Conducted roundtable on credit rating and credit risk analysis (Q1). • Provided specialized technical assistance in a variety of areas, including prospectuses for bond offerings, new offshore investment funds, and hybrid securities (Q1). • Provided on-the-job training to corporate finance staff throughout quarter (Q1). • Conducted specialized workshops for the CMA staff. Topics included bond trading, discount rates, fraud in offering documents, and consolidated financial statements (Q2). • Provided on-the-job training and specialized technical assistance to the CMA staff throughout the quarter. Assistance, included helping the CMA respond to inquiries from prospective bond dealers and to a request from a local brokerage company to establish an off-shore mutual fund (Q2-3). • Conducted six workshops on bond trading and two workshops on modern valuation techniques (Q2-3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date in 2000
CMA (cont.)	1.5 Additional Institutional Development and Training Activities	<ul style="list-style-type: none"> Support study of demand for securities in Egypt 	90%	<ul style="list-style-type: none"> Agreed to help fund study of the demand for securities in the Egyptian market (Q1). Researchers developed outlines of report sections and lists of sources (Q1). Engaged short-term expatriate advisor to review outlines and sources (Q1). Researchers completed drafts of sections 1-3 (Q2). Report on public awareness and outreach methods for increasing the demand for Egyptian securities completed and delivered (Q3). Study group for market demand study completed and delivered the full report (Q3). CMD initiated assistance with layout and printing of demand study (Q3).
	2.1 Build an Electronic Database for Filing and Retrieving Corporate Information (completion after year-end)	<ul style="list-style-type: none"> Outline system requirements Draft database specifications 	50%	<ul style="list-style-type: none"> Short-term expatriate advisor assessed system requirements and conducted workshops for the CMA management and staff (Q1-2). Drafted system requirements report (Q2). Delivered system requirements report in English and Arabic (Q3).
	2.2 Improve the Functioning and Security of the CMA's Electronic Systems	<ul style="list-style-type: none"> Firewall installation and testing Automation of key activities (included as an aspect of CMA 1.1) 	100%	<ul style="list-style-type: none"> Delivered firewall hardware (Q1). Issued contract for firewall software, installation, and training (Q1). Delivered firewall software (Q2). Provided training to the CMA staff (Q2). Firewall installed and brought online (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date in 2000
CMA (cont.)	2.3 Develop Data Archiving Capability	<ul style="list-style-type: none"> Determine specifications Procure software and hardware 	5%	<ul style="list-style-type: none"> Began developing specifications with CMA management (Q1). Task on hold pending outcome of discussions about electronic filing and retrieval system (CMA 2.1).
	3.1 Improve Capital Market's Legal and Regulatory Structure (ongoing)	<ul style="list-style-type: none"> Review new Capital Markets Law Draft rules and regulations Improve disclosure requirements 	70%	<ul style="list-style-type: none"> Examined financial disclosure requirements (Q1). Conducted workshop on financial disclosure (Q1). Rule on Rule Making (drafted in 1999) approved by CMA Board of Directors (Q2). Delivered rule on advertising (Q2). Delivered regulations on insider trading, price manipulation, and selective disclosure (Q3). Delivered rules for the registration of custodians and depositary banks (Q3). Drafted regulations covering net capital and margin lending (Q3).
	3.2 Establish Investor Protection Fund (completion after year-end)	<ul style="list-style-type: none"> Propose structure and funding mechanism Draft rule and regulations 	75%	<ul style="list-style-type: none"> Examined bankruptcy provisions in Egyptian law, which will have a major effect on the construction of the fund (Q1-2). Drafted report proposing basic elements of the investor protection fund (Q3). Drafted decree and executive regulations for the fund (Q3).
	3.3 Advise and Assist on the Creation of SROs (completion after year-end)	<ul style="list-style-type: none"> Legal and regulatory requirements Help develop CMA requirements for SROs 	0%	<ul style="list-style-type: none"> Start pending receipt of draft of new Capital Markets Law.

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date in 2000
CMA (cont.)	4.1 Train Financial Journalists	<ul style="list-style-type: none"> • Press Forum, thematic sessions • Press Forum, technical sessions • Reporting techniques (broadcasters) • Financial English 	60%	<ul style="list-style-type: none"> • Conducted thirteenth press forum (Q1). • Outlined structure of sessions on reporting techniques for broadcasters (Q1). • Conducted six-week (two days each week) training program for financial journalists through the Arab Academy (Q2). • Financial English training for journalists started (October 1).
	4.2 Improved Press Relations and Outreach Capacity	<ul style="list-style-type: none"> • Help reorganize Press Relations Department • On-the-job training and assistance • Develop brochures on key capital market topics 	75%	<ul style="list-style-type: none"> • Provided extensive on-the-job training to CMA public relations manager (Q1). • Produced fact sheet and arranged interviews for Chairman with major newspapers to increase understanding of cement company sales (Q1). • Helped local newspaper establish capital markets page (Q1). • Developed template for weekly CMA bulletin (Q1). • Outlined investor education brochures and CMA annual report, and gathered information (Q1). • Completed English and Arabic drafts of the CMA's 1999 Annual Report (Q2). • Printed and distributed CMA Annual report (Q3). • Completed drafts of four educational brochures, which will be sponsored by ECMA (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
CMA (cont.)	4.3 Establish Sustainable Website	<ul style="list-style-type: none"> • Upgrade site, adding dynamic content • Training in updating and adding information • Training in site maintenance 	100%	<ul style="list-style-type: none"> • Modified some visual content in response to CMA requests (Q1). • CMA management reviewed and approved site content in Arabic and English (Q1). • Secured permission to host site on IDSC server (Q1). • Provided workshop on website development and maintenance (Q1). • Facilitated DT2 training in website development and maintenance (Q1-2). • Website finalized and launched (Q2). • CMA moved website to CMA servers, began maintaining the site without CMD assistance (Q3). • Formatted CMA Annual Report for publication on website (Q3).
	4.4 Improve Quality of Financial Reporting on Television (completion after year-end)	<ul style="list-style-type: none"> • Support for financial segment and closing report • Pilot for educational video series 	65%	<ul style="list-style-type: none"> • Helped launch market closing report (Q1). • Provided ongoing assistance with graphical content of closing report and nightly financial news segment (Q1-3). • Developed outline of educational video series pilot and began production (Q2). • Completed initial version of two-segment pilot for educational video series (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
CASE	1.1 Corporate Planning and Institutional Development (completion after year-end)	<ul style="list-style-type: none"> • Training programs for CASE employees • Facilitate development of three-year, rolling corporate plan • Assistance restructuring of Evergreen Training Center 	10%	<ul style="list-style-type: none"> • Delivered outline of proposed organizational structure (Q3).
	1.2 Improve Procedures for Managing Market Operations (completion after year-end)	<ul style="list-style-type: none"> • Improvement of OTC market • New corporate actions procedures • Development of broker registration and testing program 	25%	<ul style="list-style-type: none"> • Finalized and delivered report recommending improvements to OTC market (Q1). • Work on broker registration and testing put on hold pending division of responsibilities between the CMA, CASE, and ECMA (Q1). • Initiated comprehensive examination of market surveillance and enforcement (Q3).
	2.1 Support the Improvement of Data-Processing Systems	<ul style="list-style-type: none"> • Arabization of EFA user documentation 	80%	<ul style="list-style-type: none"> • Received user documentation from CASE and started Arabization process (Q1). • Delivered 180 workstations, completing the main portion of the hardware procurement to support the exchange's new trading system software (Q1). • Deliverer remaining hardware and tested and approved all equipment, completing the procurement (Q2). • Completed Arabizations of two of three user manuals and accompanying glossaries (Q2). • Completion pending CASE approval of glossaries and first two Arabized manuals (Q2-3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
CASE (cont.)	3.1 Improve Current Rules Governing Exchange	<ul style="list-style-type: none"> Review of membership and listing rules Drafting new dispute resolution rules and procedures 	60%	<ul style="list-style-type: none"> Draft "Code of Arbitration" received from subcontractor W&S. Will be modified and delivered in fourth quarter (Q1). Delivered review of membership rules drafted by CASE (Q2). Drafted and delivered new draft of membership and draft board of directors rules (Q3). Started drafting new listing rules (Q3).
	3.2 Advise and Assist on the Creation of SROs (completion after year-end)	<ul style="list-style-type: none"> Assistance to be determined 	0%	<ul style="list-style-type: none"> Start pending receipt of draft of new Capital Markets Law.
	4.1 Enhance Awareness of Investors, Students, and the General Public	<ul style="list-style-type: none"> Pilot for an educational video series Introduction of stock market game Develop brochures on key capital market topics 	65%	<ul style="list-style-type: none"> Stock market game pilot successfully implemented at selected secondary schools and universities (Q1). Delivered draft report outlining the requirements and timeline for development of an investor information center and hotline (Q1). Delivered comments on improving the stock market game (Q2). Developed outline of educational video series pilot and began production (Q2). Completed drafts of four educational brochures, which will be sponsored by ECMA (Q3). Completed initial version of two-segment pilot for video education series (Q3).
	4.2 Help Organize and Conduct Major Events	<ul style="list-style-type: none"> Opening of stock exchange renovations International conference 	30%	<ul style="list-style-type: none"> Delivered video new release to publicize opening of new trading floor and introduction of new trading system (Q2). Conference to be co-scheduled by CASE Chairman and Minister of Economy (Q2). CMD informed that conference will not happen in 2000 or early 2001; assistance put on hold (Q3).

MCSD	1.1 Document MCSD Services, Systems, and Controls (completion after year-end)	<ul style="list-style-type: none"> • Documentation of internal procedures • Documentation of external procedures • Documentation and drafting of rules • Establishment of user advisor group 	35%	<ul style="list-style-type: none"> • Began developing budgeting manual (Q1). • Drafted rules for central registry function (Q1). • Delivered draft budgeting manual and accompanying training plan to MCSD for review (Q3). • Evaluated MCSD's internal audit function (Q3). • Procedures writing workshops rescheduled for 2001 (Q3).
	1.2 Strengthen Training Capacity	<ul style="list-style-type: none"> • Implementation of training manual • Advanced training-of-trainers program 	85%	<ul style="list-style-type: none"> • Conducted advanced training-of-trainers workshop (Q2). • Conducted workshops on implementation of training manual and creation of training department (Q2). • Delivered draft training manual (Q2). • Started third phase of training-of-trainers program (Q3).
	2.1 Upgrade Computer and Network Management Systems	<ul style="list-style-type: none"> • Supervise installation of firewall • Procurement of server upgrade • Evaluation and upgrade of network management system 	90%	<ul style="list-style-type: none"> • Delivered server upgrade (Q1). • Delivered firewall hardware (Q1). • Signed contract for firewall software, installation, and training (Q1). • Evaluated network management systems and wrote specifications for the procurement (Q1-2). • Delivered firewall software (Q2). • Provided training in firewall installation and maintenance (Q2). • Firewall installation completed (Q3). • Evaluated and recommended improvements to network security systems (Q3). • Issued RFP for NMS procurement; received and evaluated responses (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
MCSD (cont.)	3.1 Improve the Legal Structure Governing MCSD Operations (ongoing)	<ul style="list-style-type: none"> • Help finalize new Central Depository Law and executive regulations • Review operations from standpoint of new Central Depository Law • Review new Capital Market Law • Examine DVP in Egyptian market 	70%	<ul style="list-style-type: none"> • Assisted with finalization of draft Depository and Central Registry for Securities Law (Q1). • Drafted executive regulations to accompany the new law, including a regulation covering the registry component (Q1). • Delivered memorandum on payment system for securities in Egypt (Q1). • Investigated and conducted workshop on legal risks associated bankruptcy provisions in current Egyptian law (Q1). • Delivered report on bankruptcy and the capital market (Q2). • Depository and Central Registry for Securities Law passed by People's Assembly (Q2). • Translated new Depository Law for distribution to institutional partners and USAID (Q2). • Adapted and revised the executive regulations to the law as it was passed by the People's Assembly (Q2). • Revised translation of new Depository Law in accordance with comments from the CMA and market participants (Q3). • Delivered full Arabic and English draft of executive regulations to the new Depository Law (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
MCSD (cont.)	3.2 Establish Securities Lending and Borrowing Services and Assist with the Implementation of the SGF (completion after year-end)	<ul style="list-style-type: none"> • Assist with implementation of SGF • Outline requirements for securities lending and borrowing service • Draft rule, procedures, and regulations 	90%	<ul style="list-style-type: none"> • Assisted with SGF launch and periodic recalculation of participant contributions (Q1). • Drafted and distributed discussion paper in Arabic and English on securities lending and borrowing (Q1). • Conducted workshop for MCSD and market participants on securities lending and borrowing (Q1). • Conducted additional workshop for MCSD and market participants to discuss issues surrounding securities lending and borrowing service (Q2). • Help MCSD specify business and IT requirements for the lending and borrowing service (Q2-3). • Wrote and distributed status report on development of securities lending and borrowing service, including a discussion of the issues to be resolved (Q3).
	4.1 Implement the Integrated Communications Strategy, Focusing on Domestic and Regional Audiences	<ul style="list-style-type: none"> • Implement communications strategy • Develop new means of communicating MCSD messages 	5%	<ul style="list-style-type: none"> • Delivered advertisement for MCSD public awareness specialist. • Scheduled to start after MCSD hires a full-time communications specialist.
	4.1 Develop Sustainable Website	<ul style="list-style-type: none"> • Develop and launch website • Training for staff 	50%	<ul style="list-style-type: none"> • Completed DT2-funded training in website development and maintenance (Q1-2). • Researched content of other depository and clearing corporation websites (Q2). • Agreed to provide editorial assistance with English website (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
SI/ECMA	1.1 Develop Organizational and Membership Structures Needed to Become an SRO (completion after year-end)	<ul style="list-style-type: none"> • Assistance modifying membership structure • Assistance modifying organizational structure • Ongoing legal and regulatory review and assistance 	20%	<ul style="list-style-type: none"> • Delivered paper on the roles and responsibilities of self-regulatory organizations (SROs), which ECMA used as the basis for a memorandum to the CMA Chairman (Q1). • CMA Chairman approved ECMA as an SRO, to become effective following passage of the enabling legislation (Q2). • Short-term advisor scheduled for fourth quarter to assist on task (Q3).
	1.2 Improve and Expand Training and Certification Programs	<ul style="list-style-type: none"> • Assistance expanding training programs • Development of training department • Research on cooperative agreements 	20%	<ul style="list-style-type: none"> • Trained staff in database operation and management, including database to track training programs and trainees (Q1). • Short-term advisor scheduled for fourth quarter to assist on task (Q3).
	4.1 Develop a Forum on Financial Instruments and Assist with ECMA's Existing Forum (ongoing)	<ul style="list-style-type: none"> • Development assistance on forum for corporate treasures, CFOs, and CEOs • Assistance with existing forum 	50%	<ul style="list-style-type: none"> • ECMA and CMD rescheduled start of forum in effort to coordinate with the International Finance Corporation (IFC) and because of the poor investment environment currently in Egypt (Q2-3). • Commenced drafting report on financial instruments that would be appropriate to present during the forum (Q3).
	4.2 Develop Sustainable Website	<ul style="list-style-type: none"> • Develop and launch website • Training for staff 	30%	<ul style="list-style-type: none"> • Presented recommendations on website development to ECMA (Q3). • ECMA accepted CMD's recommendations (Q3). • CMD assistance to start in 2001, after ECMA has specified its role in the market.

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
SI/ECMA (cont.)	4.3 Additional Public Outreach Activities	<ul style="list-style-type: none"> • Brochures on capital market topics (previously part of CMA 4.2 and CASE 4.1) • Guide to reading financial statements 	80%	<ul style="list-style-type: none"> • ECMA agrees to sponsor "Guide to Reading Financial Statements" (Q2). • CMA, CASE, and CMD agree that investor education brochures should be sponsored by ECMA (Q2). • Finalized financial statements guide and completed editing and design (Q2). • Printed and distributed more than 10,000 copies of the guide to reading financial statements (Q3). • Completed drafts of four investor education brochures (Q3).
SI/EIMA	1.1 Develop Certification Program	<ul style="list-style-type: none"> • Information on similar programs • Training-of-trainers • Ongoing advice and assistance 	0%	<ul style="list-style-type: none"> • On hold pending appointment of new EIMA director.
	1.2 Assist EIMA with Organizational Development	<ul style="list-style-type: none"> • Provide information on similar associations • Ongoing advice and assistance 	0%	<ul style="list-style-type: none"> • On hold pending receipt of draft of new CML.
	1.3 Additional Institutional Development and Training Activities	<ul style="list-style-type: none"> • Develop performance measurement guidelines. 	50%	<ul style="list-style-type: none"> • Agreed to provide short-term expatriate advisor to help develop guidelines for measuring investment fund performance and standards for publicizing investment funds (Q2). • Short-term advisor arrived and started development of Egyptian performance measurement standards, based on international standards issued developed by the U.S. Association for Investment Management Research (Q3).
	4.1 Increase Effectiveness of EIMA's Public Outreach and Public Awareness Efforts	<ul style="list-style-type: none"> • Assist with media event • Assist with website development 	10%	<ul style="list-style-type: none"> • Pending official government recognition of EIMA. • Presented website development plan; EIMA accepted plan (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
CBE	1.1 Facilitate the Introduction of New Financial Instruments (ongoing)	<ul style="list-style-type: none"> • Development of executive discussion papers • Executive seminars and workshops • Legal and regulatory advice and assistance 	85%	<ul style="list-style-type: none"> • Proposed using cash management bills (reservable) as part of developing market-based auction for government bond rollover (see 1.2, Q1). • Conducted six-session workshop on money-market instruments and the policy changed needed to facilitate the introduction of new instruments into the Egyptian market (Q2). • Presented a range of new financial instruments to CBE departments, the MOF, and market participants, including negotiable certificates of deposit (CDs), bond repurchase agreements, commercial paper, and cash management bills (Q3). • Conducted four workshops on bond markets in Egypt as part of the USAID-funded TAPR Pension Reform program (Q3).
	1.2 Improve the Efficiency of the Government Securities Markets (completion after year-end)	<ul style="list-style-type: none"> • Work toward establishment of market-based auctions • Assist with implementation of dealer-based trading in secondary market • Help demarcate legal and regulatory responsibilities • Recommend selection criteria for primary dealers 	60%	<ul style="list-style-type: none"> • Proposed two methods of implementing market-based auctions for government bond rollover (Q1). • Delivered report on requirements and responsibilities of primary dealers (Q1). • Worked with the Minister of Finance, on the creation of primary dealers and the introduction of market-based auctions (Q2-3). • Delivered a streamlined action plan for the creation of primary dealers to the CBE Governor, Deputy Governor, sub-governors, and the Minister of Finance (Q3). • Minister of Finance announced his intention to create primary dealers and initiate market-based auctions by early 2001 (Q3). • Initiated assistance to the MOF on the issuance of a \$500-million Eurodollar bond (Q3).

Institution	Outcome	Major Year-2000 Activities	Percent Complete	Progress to Date
CBE (cont.)	2.1 Develop a Book-Entry Registry for Government Securities (completion after year-end)	<ul style="list-style-type: none"> Select and train working group Complete functional analysis report 	60%	<ul style="list-style-type: none"> Conducted six workshops for CBE personnel on book-entry registry (Q1). Achieved consensus among CBE managers and staff on the basic characteristic and benefits of book-entry registry (Q1). Began working with new CBE Automation Director on development of book-entry registry (Q2). Created joint task force to develop detailed requirements for book-entry registry. CBE staff started drafting detailed requirement for presentation to the CBE management (Q3). Conducted presentations for CBE staff on bond trading and settlement to help outline system requirements (Q3).
MOEFT	3.1 Assist with Review and Modification of New Capital Market Law (completion after year-end)	<ul style="list-style-type: none"> Review and comment as requested Draft executive regulations, as requested 	0%	<ul style="list-style-type: none"> MOEFT has not delivered draft law (Q1).
	4.1 Improve the Look and Content of the MOEFT Website	<ul style="list-style-type: none"> Improve visual look of site Add additional content and features 	95%	<ul style="list-style-type: none"> Redesigned visual look of the site (Q1). Designed and installed searchable databases for documents and statistics produced by the ministry (Q1). Conducted workshop on website development and maintenance (Q1). Finalized content and technical aspects of redesigned website (Q2). Launch postponed by MOEFT while it was working on new trade promotion site (Q2-3). Conducted follow-up assessment of site and outlined additional enhancement to make it sustainable (Q3).

B. Intermediate Results*

During 1999, CMD exceeded all three of its USAID-defined intermediate results. The project continues to monitor these results in 2000, identifying those areas where CMD has had an impact. As discussed in CMD's previous QPRs and work plan, the intermediate results are indicators that reflect the size and activity of the market. While there is no *measurable* causal relationship between these indicators and the policy, regulatory, and institutional progress made by the Egyptian government and/or the project, progress in these areas has a positive, albeit *difficult-to-measure*, impact on market size and activity. CMD's activities continue to show results in these areas, and market activity continues to expand.

As noted in our Year-2000 Work Plan, CMD's activities are designed to improve the infrastructure that underpins the Egyptian capital market and to inform investors and potential investors of these improvements. The result of these developments, as noted above, will be increased investor confidence and investment. For example, the establishment of the primary dealer system, which is expected in 2001, will likely increase activity in the markets for T-bonds and T-bills, as will the full implementation of the bond dealer decree, on which CMD assisted in 1999 and early 2000. In addition, CMD's legal work—which includes, among other things, assistance on the development of the newly issued Central Securities Depository and Registry Law and draft regulations defining illegal and unethical trading practices—is expected to increase the confidence of foreign and domestic investors in the legal and regulatory framework underpinning the capital market. This increased confidence will likely translate into increased trading activity over time.

Nonetheless, one should keep in mind that political, economic, and social events, both locally and internationally, have a significant impact on fluctuations in market size and activity, particularly in emerging markets, and many of these events are beyond the control of individual governments.

Value of Shares/Bond Traded

In the project's contract, the value of shares and bonds traded was projected to be LE15 billion in 1998, with LE25 billion established as the intermediate result for the value of trading in listed and over-the-counter (OTC) stocks and bonds to be achieved by 2001. During 1999, trading value was LE39 billion, up from LE23 billion in 1998. The first three quarters of 2000 saw total trading valued at LE40.6 billion, up from the LE26.8 billion in the first three quarters of 1999.

Volume of Trading

CMD's contract projects the volume of trading in 1998 at 400 million shares and establishes a trading volume of 600 million shares as the intermediate result to be achieved in 2001. In 1999, market volume was 1.1 billion. In the first three quarters of 2000, volume was 768 million, up from 750 million shares in the same period in 1999.

* The figures presented in this section were provided by the CMA, "Monthly Statistical Report," September 2000.

Market Capitalization

CMD's contract baselines market capitalization at LE70 billion in 1998 and establishes LE100 billion as the intermediate result to be achieved in 2001. At the end of 1999, market capitalization stood at LE112 billion, up from LE83 billion at the end of 1998. At the end of the third quarter of 2000, market capitalization was LE117.3 billion.

C. Long-Range Outcomes

This section outlines the ways in which CMD's ongoing work contributes to the realization of its long-range outcomes. For a complete discussion of particular activities, refer to the institutional sections of this report and to the project's work plan.

C1. *A well-developed and fully integrated stock exchange with back-up system, online surveillance capacity, and an increased trading capacity of over 20 times present capacity.*

During 1999, CMD procured new hardware to run the exchange's new trading software. Delivery of the hardware was completed in the first half of 2000. CASE is currently installing the trading software that it procured independently. The new trading system is able to handle over 50,000 transactions per day, approximately 18 times the exchange's daily average in 1998. The new hardware also provides for a "hot" backup system, designed to step in seamlessly in the event of a system failure; a "warm," disaster-recovery system, which can also be used for training purposes; and new communications servers to handle increased network traffic. CASE expects to launch the new trading system in the first half of 2001 (Section III, 1.2 and 2.1).

CASE independently procured data warehousing software, with which it has developed and launched the first phase of a stock-watch program for online market surveillance. CASE will have an effective and adequate online after surveillance capacity the second and third phases of this program are completed in 2001. Based on an evaluation currently being undertaken by a CMD short-term advisor, the project will provide additional training to the CASE surveillance analysts and manager during 2001, and help the CMA develop effective off-line surveillance capabilities (Sections II, 1.2 and III, 1.2).

C2. *Improved national clearing, settlement, and depository systems in place with increased capacity, performance, back-up security, and reliable communications.*

CMD has delivered equipment to upgrade the MCSD's main server and software and hardware for a firewall security system to protect its networks. The firewall system was installed during the third quarter. A CMD short-term advisor also evaluated and recommended modifications to MCSD's electronic security systems. We are currently procuring network management software to help MCSD more effectively manage its systems (see Section IV, 2.1).

C3. *A cadre of trained regulators and securities market analysts, technicians, and executives.*

Training is incorporated into all of CMD's major activities. During 2000, the project is offering an extensive program of on-the-job training, workshops, and forums to its institutional partners and market participants. It also continues to work with the USAID-funded DT2 project to provide formal training, both in Egypt and internationally. For the

exact nature of these training programs, see the institutional sections of the work plan and Appendixes A and B.

During the first three quarters of 2000, CMD's long- and short-term advisors conducted 3,880 person-hours of training, and 14,182 person-hours of training was provided through the USAID-funded DT2 project. During the year, 64 staff members from our institutional partners have attended English-language training at AUC-CACE.

C4. A cadre of certified brokers.

Most of our work on broker registration is dependent on passage of the new Capital Market Law and assignment of regulatory responsibilities among our institutional partners (in particular, the CMA, CASE, and ECMA). In the interim, we are working with ECMA and EIMA to strengthen their training departments and programs. An expatriate short-term advisor will assist on this task during the fourth quarter (Section V, A1.2 and B1.2).

C5. Stronger and well-developed self-regulatory organizations (SROs).

In 1999, CMD worked with its institutional partners to introduce the concept of SROs into the Egyptian market and to determine the legal and regulatory conditions for their creation. By the end of 1999, CMD's efforts resulted in agreement on the part of the CMA management to help MCSD, CASE, and ECMA move towards SRO status (see previous QPRs).

CMD's year-2000 assistance program in this area has two dimensions. On the one hand, the project is working to identify the legal prerequisites for the establishment of SROs in Egypt. This activity is on hold pending receipt of a draft of the new Capital Market Law, currently being revised by the MOE. On the other hand, CMD is working with the organizations to develop their institutional and organizational capacity to assume the role of SROs. This aspect of our work is ongoing and includes the development of new board of directors, membership, and listing rules for CASE and recommendations on changes to organizational and membership structures at MCSD, ECMA, and EIMA (see Section II, 3.1; IV, 1.1; and V, A1.1 and B1.1).

C6. Improved securities industry legal and regulatory environment.

The market's legal and regulatory environment has two aspects: the laws and regulations that underpin market operations, and each institutions' rules and procedures. CMD continues to work on both levels. During the third quarter, CMD delivered a full set of executive regulations, in Arabic and English, to the new Central Securities Depository and Registry Law, and draft rules and regulations covering insider trading, price manipulation, selective disclosure, and the registration of custodians and depository banks. CMD also drafted several new rules and regulations for delivery in the fourth quarter, including regulations covering net capital requirements and margin lending, and a decree for the creation of an investor protection fund (see Section II, 3.1 and 3.2, and Section IV, 3.1).

C7. A CMA system which provides for electronic data gathering, filing, and retrieval of enterprises' financial reports.

During 1999, CMD generated consensus at the CMA about the desirability of establishing a system for filing and retrieving enterprises' financial reports. In the first and second quarters of 2000, a CMD short-term expatriate advisor helped the authority outline the requirements for the system and conducted workshops for the CMA's senior management and staff. The system requirements report was delivered, in English and Arabic, during the third quarter (see Section II, 2.1).

C8 A CMA–CASE market information system which supplies investors, traders, advisors, and others with necessary market information to formulate trading decisions.

CASE has developed its own system for distributing market information to investors, traders, advisors, and others. Initial investigations show that this system is functioning effectively. CMD will conduct additional evaluation research in this area during the fourth quarter and determine if the system can be improved with project assistance. The CMA, as part of its transition to the role of a pure market regulator, is not developing a market information system.

C9. A coordinated public education and awareness program.

CMD continues to help market institutions develop integrated communications strategies. We helped launch a daily stock market closing report during the first quarter of 2000 and continue to assist with the nightly financial news segment (see Section II, 4.4).

CMD also completed drafts of four investor education brochures on topics related to the capital market. These brochures will be sponsored by ECMA. The content of the brochures will be coordinated with the pilot for an educational video series, also being developed by the project (see Sections II, 4.2; III, 4.1; and V, A4.3). Both the video series pilot and the brochures will be completed and distributed by year-end.

For journalists, CMD provided a six-week (two sessions per week) course on a wide range of financial topics (conducted by the Arabic Academy for Science and Technology) during the first half of the year, and has started a course in financial English. The year's second session of the Capital Market Press Forum is scheduled for the fourth quarter.

APPENDIX A

Non-DT2 Training Activities

The following tables summarize CMD's non-DT2 training activities during the first three quarters of 2000. The project's DT2-sponsored activities are discussed in the institutional sections of this report and summarized in Appendix B.

Summary of Non-DT2 Training: Quarters 1-3, 2000

	Programs	Attendees*	Person-Hours
Third Quarter 2000	7	87	570
Second Quarter 2000	11	154	2,134
First Quarter 2000	8	131	1,176
1999 Total	31	483	6,028
Life-of-Project	57	855	9,908

* "Attendees" only includes participants from our partner institutions and market participants. It does not include CMD staff members who attended the training sessions nor does it include USAID representatives.

Non-DT2 Training Programs: First Quarter 2000

	Title & Description	Duration	Attendees	Person-Hours
First Quarter 2000	<i>Credit-Risk Analysis Course and Roundtable</i> , conducted by subcontractor Standard & Poor's. Participants were from the CMA, CASE, and the securities industry. Following the course, CMD hosted a roundtable on issues and problems facing the credit rating industry in Egypt. Representative of rating agencies working in Egypt, Standard & Poor's, the securities industry, and the CMA attended (see Section II, 1.4).	5 sessions, 3 hours per session	20	300
	<i>Securities Lending and Borrowing Kick-off Workshop</i> , conducted with short-term advisor Charles Rubin. Participants included MCSD and market representatives (see Section IV, 3.2).	1 session, 4 hours	20	80
	<i>Introduction to World Wide Web (WWW) Technologies Seminar</i> , conducted by CMD long-term advisor. Provided instruction in basic web technologies (website development and maintenance) for MOE and CMA staff members (see Section II, 4.3).	1 session, 3 hours	10	30
	<i>Book-Entry Registry Workshop (1)</i> , conducted by CMD long-term advisors. Workshop for CBE managers and line people on the implementation of the book-entry registry (see Section VI, 2.1).	1 session, 4 hours	30	120

	Title & Description	Duration	Attendees	Person-Hours
First Quarter 2000 (cont.)	<i>Book-Entry Registry Workshop (2)</i> , conducted by CMD long-term advisors. Additional workshops for groups involved in development of the book-entry registry. Sessions designed to develop consensus on characteristics and desirability of registry (see Section VI, 2.1).	5 sessions, 3 hours per session	10	150
	<i>Money Market Workshop</i> , conducted by CMD long-term advisor. The workshop's five sessions were designed to teach the basic principles of money markets and money market instruments in order to prepare the CMA for the introduction of dealer-based trading and the new regulatory responsibilities it will bring. Participants were drawn from the following CMA departments: Corporate Finance & Mutual Funds, Surveillance, Accounting & Financial Analysis, Economic Research, and the Technical Office (see Section II, 1.4).	5 sessions, 4 hours per session	14	280
	<i>Financial Disclosure Workshop</i> , conducted by short-term advisor Dr. Tony Sondhi. A one-day session for participants from the CMA Accounting Sector that covered consolidated financial statements, mergers and acquisitions, translation of financial statements in foreign currencies, cash flow statements, auditing reports, and sanctions for non-compliance with disclosure requirements (see Section II, 3.1).	1 session, 8 hours (full day)	10	80

	Title & Description	Duration	Attendees	Person-Hours
First Quarter 2000 (cont.)	<i>Bankruptcy Law and the Capital Market</i> , conducted by short-term advisor Marc Albert. Participants were drawn from MCSD, the MOE, private law firms, and private banks. The workshop enabled participants to compare current provisions in Egyptian law with international standards—specifically with American legislation—in order to identify areas where improvement is needed. The workshop is a first step in outlining provisions necessary to reduce legal risk in the Egyptian clearing and settlement system (see Section IV, 3.1).	1 session, 8 hours (full day)	17	136
Total—First Quarter 2000			131	1,176

Non-DT2 Training Programs: Second Quarter 2000

	Title & Description	Duration	Attendees	Person-Hours
Second Quarter 2000	<i>Electronic Filing and Retrieval System (1):</i> Short-term advisor Sylvia Reis conducted a workshop for the CMA Chairman and his senior staff on building a system for filing and retrieving corporate information.	1 session, 3 hours	10	30
	<i>Electronic Filing and Retrieval System (2):</i> Short-term advisor Sylvia Reis conducted a workshop on electronic filing and retrieval for the CMA Deputy Chairman, department heads, and members of the senior management. During the workshop, Ms. Reis presented the basic characteristics and capabilities of corporate information systems, and began discussing the requirements for such a system in Egypt.	1 session, 3 hours	12	36
	<i>Consolidated Financial Statements:</i> CMD's long-term advisors conducted two sessions of the Consolidated Financial Statements Workshop, a series on how to consolidate and read financial statements received from issuers. Participants were drawn from the following departments: Corporate Finance and Mutual Funds, Accounting and Financial Analysis, Establishment of Joint-Venture Companies, and International Capital Markets.	2 sessions, 2 hours/session	19	76

	Title & Description	Duration	Attendees	Person-Hours
Second Quarter 2000 (cont.)	<i>Securities Lending & Borrowing:</i> Short-term advisor Charles Rubin conducted a second workshop for MCSD and market participants on the specifications of a securities lending and borrowing services. The workshop was based on Mr. Rubin's first quarter discussion paper. Participants raised a number of policy concerns, including fees for the service, who will be the actual lenders (MCSD or its participants), and the formula for allocating requests to borrow securities among participants.	1 session, 3 hours	20	60
	<i>Securities Lending & Borrowing:</i> Short-term advisor Charles Rubin conducted a workshop to familiarize MCSD's IT staff with the technical requirements of the securities lending and borrowing service.	1 session, 3 hours	10	30
	<i>Money Market Workshop Series:</i> CMD's long-term money and bond markets advisor conducted a six-session workshop on money markets for the CBE management and staff. CMD was assisted by U.S. Treasury Advisor Keith Krchak in most of the sessions. The workshop covered a wide range of new financial instruments and the policy changes that would be necessary to facilitate their introduction in Egypt.	5 sessions, 2 hours/session	15	150

	Title & Description	Duration	Attendees	Person-Hours
Second Quarter 2000 (cont.)	<i>Journalist Training:</i> CMD and the CMA held a course on financial and capital markets for financial journalists, conducted by the Arab Academy for Science and Technology. The course was held every Sunday and Wednesday for six weeks.	12 session, 3 hours/session	30	1,080
	<i>Advanced Training of Trainers:</i> Short-term advisor Jane Pettit conducted advanced training-of-trainers workshops for MCSD staff members.	10 sessions, 8 hours (full day)	6	480
	<i>Bond Trading Workshops:</i> CMD conducted additional workshop sessions on bond trading for the CMA staff. The workshop is designed to increase the CMA's understanding bond trading, including portfolio management, restructuring portfolios, and profitability considerations of bond dealers and market makers.	2 sessions, 3 hours	17	102
	<i>MCSD Training Manual:</i> CMD short-term advisor Ms. Pam Reardon delivered a series of workshops for MCSD managers and staff on the implementation of the training manual. The workshops and manuals provided the basic principles necessary for MCSD to establish a fully functioning training department.	3 sessions, 2 hours	15	90
Total—Second Quarter 2000			154	2,134
Total—First and Second Quarters 2000			285	3,310

Non-DT2 Training Programs: Third Quarter 2000

	Title & Description	Duration	Attendees	Person-Hours
Third Quarter 2000	<i>Trading Corporate Bonds:</i> CMD's Money and Bond Markets Advisor John Noonan conducted six sessions of a bond market workshop for the CMA staff, focusing on secondary trading in bonds and benefits of dealer market-making. Participants attended from the following departments: corporate finance, research and development, international relations, and accounting and financial.	6 sessions, 3 hours/session	10	180
	<i>MCSD budgeting manual:</i> The training program was delivered by CMD subcontractor Zarrouk & Khaled advisors (Mr. Mohamed Abdel Salam and Mr. Sayed Karam) and given to executives, board members, mid-level managers, and finance department staff.	1 session, 3 hours	20	60
	<i>MCSD Training Manual:</i> CMD short-term advisor Ms. Pam Reardon completed a series of workshops for MCSD managers and staff on the implementation of the training manual. The workshops and manuals provided the basic principles necessary for MCSD to establish a fully functioning training department.	4 sessions, 2 hours/session	15	120
	<i>Cross Border Clearing & Settlement:</i> CMD short-term advisor Mr. Charles Rubin conducted presentations for MCSD staff on the relationship between an ex-dividend date, record date, and settlement date, and on a system to clear and settle cross border trades in the Middle East.	2 sessions, 3 hours/session	10	60

	Title & Description	Duration	Attendees	Person-Hours
Third Quarter 2000 (cont.)	<i>Primary Dealer System:</i> CMD long-term advisor Mr. John Noonan and US Treasury Advisor Keith Krchak delivered a presentation on “The Primary Dealer System” to the sub-governors of the CBE. The presentation covered the development of a primary dealer system, and the roles of the MOF, CBE, primary dealers, and the investment community.	1 session, 3 hours	10	30
	<i>Debt Management Workshops:</i> CMD long-term advisor Mr. John Noonan and US Treasury Advisor Keith Krchak are conducting ongoing workshops to assist the two new debt management advisors to the Minister of Finance. The workshops address debt management and the primary dealers system.	10 sessions, 2 hours/session	2	40
	<i>Bond and Money Markets:</i> CMD long-term advisor John Noonan delivered presentations to portfolio managers and regulators on “Bond and Money Markets,” at two workshops sponsored by the USAID-funded TAPR Pension project.	2 sessions, 2 hours	20	80
Total—Third Quarter 2000			87	570
Year-to-date—First through Third Quarters 2000			372	3,880

APPENDIX B

DT2 and AUC-CACE Training Activities

The following table summarizes CMD's DT2 and AUC-CACE training activities during the first three quarters of 2000.

Completed Courses (Quarters 1-3, 2000)

Program	Date	Number of Participants					Total participants	Hours per day	Number of days	Total hours	Person-hours of training
		CASE	CBE	CMA	ECMA	MCSD					
Financial and Public relations in Stock Exchange	Jan-00	2					2	8	10	80	160
Computer Training	Jan-00		7				7	4	24	96	672
Basic Corporate Finance	Feb-00					25	25	5	15	75	1,875
Developer 2000	Feb-00	6		6		7	19	3	21	63	1,197
Overview of Management Functions & Skills	Feb-00			10		15	25	7	15	98	2,438
The Role of Banks in Emerging Capital Markets	Feb-00		10				10	5	10	50	500
Computer Training	Feb-00		10				10	3	20	60	600
Capital Markets: Functions, Tools & Parties Involved	Feb-00		10				10	5	10	50	500
Mutual Funds	Mar-00		5	5		5	15	4	24	96	1,440
Mastering Web Application Development	Apr-00	2		6		2	10	4	10	40	400
Advanced Capital Markets Training (NYIF)	Jun-00		3				3	8	10	80	240
Basic Corporate Finance	Jun-00	12		12			24	5	10	50	1,200
Advanced Management Functions & Skills	Jun-00					18	18	4	10	40	720
CMA NYIF Program "Technical Analysis" (USA)	Jun-00			2			2	8	10	80	160
CMA NYIF Program "Project Finance" (USA)	Jun-00			2			2	8	10	80	160
Advanced Corporate Finance & Valuation Methods	Jul-00	8		8		8	24	5	10	50	1,200
International Accounting Standards	Jul-00			10		8	18	4	10	40	720
Total DT2		30	45	61	0	88	224	90	229	1,128	14,182
English Language Training - AUC-CACE	Winter 99-00	11	6		2		19	3	45	135	2,565
English Language Training - AUC-CACE	Spring-00		10	8		10	28	3	45	135	3,780
English Language Training - AUC-CACE	Fall-00	8	8	10		10	36	3	45	135	4,860
Total AUC-CACE		19	24	18	2	20	83	9	135	405	11,205
Total AUC & DT2: Quarter 1-3, 2000		49	69	79	2	108	307	99	364	1,533	25,387
Total DT2: 1999		21	15	22	1	17	76	46	115	584	5,137
Total Life-of-Project		70	84	101	3	125	383	145	479	2,117	30,524

APPENDIX C

Project Produced Reports

To date, the project has produced a number of reports, in both Arabic and English. Several of these reports were prepared during the work planning process as a way of introducing concepts and proposing action plans. Other reports were prepared as preliminary discussion documents and serve as a first step toward the completion of future deliverables.

Project Produced Reports: Through Third Quarter 2000

Title	Date	Language
Methods of Increasing Public Awareness of Investing	September 2000	English/Arabic forthcoming
MCSD Securities Lending and Borrowing Service: Status Report	September 2000	English
Electronic Data Gathering and Retrieval: System Requirements Report	July 2000	English/Arabic
CMD Quarterly Status Report: Second Quarter 2000	July 2000	English
Bankruptcy Law and the Capital Market: An Assessment	June 2000	English
CMD Quarterly Status Report: First Quarter 2000	April 2000	English
Securities Lending and Borrowing—Discussion Paper	February 2000	English/Arabic
Private Equity Investing: Venture/Development Capital Funds and Turnaround Funds	February 2000	English/Arabic
Level One of the CMA Process Model	February 2000	Arabic
Recommendations on the Development of Egypt's OTC Market	February 2000	English
CMD Quarterly Progress Report: Fourth Quarter 1999	January 2000	English
CMD Year-2000 Work Plan	December 1999	English/Arabic
Preparing and Producing MCSD's 1999 Annual Report	December 1999	English
Proposal for a Stock Market Game	December 1999	English
Draft Regulations for Central Depository and Registry Law	December 1999	English/Arabic
Proposal for a Fair and Reasonable Fee Structure	November 1999	English/Arabic
Investment Securities—Legal Workshop Materials	November 1999	English
Improving Reporting on Investment Funds in Egypt	November 1999	English
International Securities Numbering System (ISIN)	November 1999	English
A Proposal for Improving Broker Compliance Procedures	November 1999	English/Arabic
Unit Investment Trusts—Background Paper	October 1999	English/Arabic
A Proposal for Registering Securities Sales Representatives.	October 1999	English

Title (cont.)	Date	Language
Independent Credit Ratings: Needs and Demands of the Egyptian Market	October 1999	English
CMD Quarterly Progress Report: Third Quarter 1999	October 1999	English
A Communications Strategy for MCSD	September 1999	English
Training-of-Trainers Workshop for ECMA	August 1999	English
Training in Capital Markets: Current Practices, Recommended Products, and Possible Directions for CASE.	August 1999	English
Recommendations on Information Display Devices	August 1999	English
CMD Quarterly Progress Report: Second Quarter 1999	July 1999	English
MCSD 1998 Annual Report	July 1999	English/Arabic
MCSD Organizational Structure, Functional Statements, and Job Descriptions	June 1999	English/Arabic
A Proposal for Developing a Market Surveillance Program	June 1999	English/Arabic
Government Securities Book-Entry System: System Requirements Report	June 1999	English/Arabic
CMA Annual Report	May 1999	English/Arabic
A Comparison Between Egyptian and International Accounting Standards	April 1999	English/Arabic
CMD Quarterly Progress Report: First Quarter 1999	April 1999	English
Survey of Regulations Pertaining to Credit Rating and Rating Agencies	April 1999	English
A Primer on New Financial Instruments	April 1999	English/Arabic
An Update of the CMD Project's Market Surveillance Activities	April 1999	English
Code of Conduct Recommendations for ECMA	February 1999	English/Arabic
CMD Quarterly Progress Report, Fourth Quarter 1998	January 1999	English
Establishing a Settlement Guarantee Fund in Egypt	December 1998	English/Arabic
Developing a Book-Entry System in Egypt	December 1998	English/Arabic
Self Regulation, Market Surveillance, and Codes of Conduct	December 1998	English/Arabic
Projects to Facilitate the Introduction of Local Credit Ratings	December 1998	English
Proposed Television and Internet Activities	December 1998	English
CMD Project First Annual Work Plan	December 1998	English/Arabic
An Integrated Communications Strategy	November 1998	English

Title (cont.)	Date	Language
Training Recommendations on the First Year Work Plan	November 1998	English
Media Recommendations on the First Year Work Plan	November 1998	English

APPENDIX D

Summary of Reports: Third Quarter 2000

Electronic Data Gathering and Retrieval: System Requirements Report

July 2000, English and Arabic, CMD short-term advisor Sylvia Reis

Institutional Partner: CMA

This report outlines the benefits of an electronic system for gathering and retrieving corporate information and the requirements for developing such a system at the Egyptian Capital Market Authority (CMA). Development and implementation of the electronic data gathering and retrieval system will be an important tool for the CMA. It will improve the authority's information capabilities and allow it to better meet the information needs of the investing community and public. Most importantly, the new system will allow the CMA to improve its ability to ensure compliance with corporate disclosure requirements, and to effectively disseminate corporate financial and non-financial information to the investing public.

The report describes electronic filing, outlines its requirements, and explains its costs and benefits. U.S. Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Review (EDGAR) system is the model used for developing a system in Egypt. The appendices provide information on EDGAR, as well as details on some of the technical issues discussed in the body of the report.

The benefits of an electronic system for filing and retrieving information are as follows:

- Increased confidence—Data integrity will be improved, no one will be able to change filings, information will be available in a timely manner to the public, and that information will be easily accessible.
- Increased efficiency and effectiveness—The CMA will have better access to information, functional integration will be increased, and accuracy will be improved.

The report recommends that the CMA implement the system in phases, so as to increase filer comfort while minimizing costs. An electronic system to track the bond issuance and post-issuance processes, which the CMA and CMD have started developing, is an appropriate first step. When that system is completed and introduced, additional steps toward developing a database for issuer filings can be developed.

The report was written with the assistance of CMD short-term advisor Sylvia Reis, former U.S. SEC assistant director for EDGAR policy. Ms. Reis was one of the leaders of the SEC team that oversaw the development of the EDGAR system. She has more than 30 years of experience in database design, development, and management.

MCS D Securities Lending and Borrowing Service: Status Report
September 2000, English, CMD short-term advisor Charles Rubin
Institutional Partner: MCS D

This report presents an introduction to the securities lending business, followed by a description of the functional specifications and system logic for all of the processing elements needed to develop an automated securities lending and borrowing SLB system. The SLB's processing logic is specific for the current MCS D settlement system. In order to convey a more thorough understanding of lending and borrowing activities, the report describes the conditions and operation of these activities in the US, where lending and borrowing securities is a major business.

The report also presents a number of policy issues that must be resolved before the programming effort can be accomplished. These issues include:

- Should there be mandatory borrowing, i.e., should customers be required to participate in the lending and borrowing system?
- Should lenders (or potential lenders) be permitted to exclude lending their shares to customers of specific brokers or bookkeepers?
- Should MCS D charge its participants transaction fees or should its share in the interest income generated from the cash collateral?
- Since the lenders will earn comparatively little interest income, should the borrowers also pay a fee?
- Should MCS D be the only investor of cash collateral or should customers (lenders) be allowed to select their bookkeeper/custodians to control and invest their cash collateral?
- When making a loan to a delinquent seller, should the system first search for a lender that has enough shares to make the full loan, or should the system use any amount of shares from the lenders in sequence in order to accumulate the required loan amount?
- Should new customers be added to the pool of potential lenders at the end of the "queue" or randomly?
- Should MCS D identify the contra party to the loan on the "securities lending/borrowing activity report" distributed to appropriate brokers and bookkeepers?
- Should the system lend shares that have already been sold, but where the trade has not yet settled?

The SLB status report was written with the assistance of CMD short-term advisor Charles Rubin. He has over 25 years experience in the securities industry, including responsibilities as a senior executive with broker-dealers, the New York Futures Exchanges, and a prominent futures commission merchant. He also has consulting experience in most areas of the domestic and international securities and futures businesses, including sales, trading, operations, accounting, administration, and investment banking.

Methods of Increasing Public Awareness of Investing
September 2000, English, Arabic forthcoming, CMD short-term advisor Marla Viorst

Institutional Partner: CMA

This report recommends public outreach and relations steps that the Egyptian securities industry and capital market institutions can take to increase demand in the capital market. It was written to accompany the “Market Demand Study” being led by Dr. Hanaa Kheir El-Din, a Capital Market Authority (CMA) board member and Cairo University professor.

The primary outreach objectives proposed in the report are:

- Increase interest in the capital market among local institutional investors—both private *and* public sectors—leading to an increase in demand for Egyptian securities.
- Increase the number of domestic retail investors in the capital markets.
- Increase the number of foreign investors in the capital markets.

In order to achieve these objectives, the industry should establish and implement three main public outreach strategies:

- Bolster confidence in the capital markets through proactive media, customer, and industry education efforts.
- Underscore the long-term benefits of investing in the capital markets in all communications materials, including speeches and other presentations.
- Help increase investor interest in the securities market with effective communications tools and information dissemination.

The core elements of the outreach plan include:

- Materials audit and message refinement
- Programming and Internet opportunities
- Education, training, and awareness-building initiatives
- Trade and consumer media relations

The report was written with the assistance of CMD short-term advisor Marla Viorst, representing the project’s U.S.-based public relations and media subcontractor Hill & Knowlton. Ms. Viorst has a wide-ranging knowledge of public relations, with experience designing and implementing major public awareness and outreach initiatives for both public and private-sector clients in the U.S.

APPENDIX E

Procurement Update: Third Quarter 2000

The following table summarizes the status of CMD's procurement efforts on behalf of its institutional partners.

Procurement Items Completed or Underway

IP	Procurement Item	Estimated Cost	Actual Cost Including Installation and Training	Total to Date by IP	Amount Budgeted per IP
CASE	Trading Servers	\$1,000,000.00		CASE	CASE
CASE	Trading Workstations	(included above)	\$1,000,121.00	\$1,000,121.00	\$1,000,000.00
CMA	Workstations	\$70,000.00	\$75,908.00	CMA \$193,149.26	CMA \$450,000.00
CMA	Laptops/LCD	\$0.00	\$9,107.00		
CMA	Xerox Machine	\$0.00	\$21,930.00		
CMA	Training Equip	\$0.00	\$7,621.98		
CMA	Training room renovation	\$0.00	\$5,000.00		
CMA	Firewall hardware	\$0.00	\$49,265.00		
CMA	Firewall software	\$0.00	\$19,982.00		
CMA	Television graphics equipment	\$0.00	\$2,858.77		
CMA	Server room air conditioner	\$0.00	\$1,476.50		
CMA	Server hardware upgrade	\$80,000.00	(transferred to firewall)		
CMA	Surveillance department re-model	\$60,000.00	in progress		
ECMA	Computer equipment and software	\$30,000.00	\$21,213.00	ECMA \$30,643.53	ECMA \$30,000.00
ECMA	AV Cassette deck	\$0.00	\$460.53		
ECMA	Training Equipment	\$0.00	\$8,970.00		
MCSD	DG Upgrade	\$90,000.00	\$96,960.00	MCSD \$217,595.00	MCSD \$290,000.00
MCSD	Barcode hd/sw	\$0.00	\$1,315.00		
MCSD	Firewall hardware	\$80,000.00	\$78,196.00		
	MCSD / CMA firewall software	(included above)	\$41,124.00		
MCSD	Network management System	\$120,000.00	in progress		
Total			\$1,441,508.78		\$1,770,000.00

Upcoming Procurement Items and Additional Requests

IP	Workplan Budgeted Items	USD Estimated Amount
CMA	EDGAR hardware	\$200,000
CMA	document archiving system	\$100,000

Additional Requests

EIMA	presentation equipment	\$7,500
CMA	computer room environmental improvements	\$7,500